PRICING Advice

CREATING THE RIGHT FEE MODEL FOR *YOUR* FINANCIAL ADVICE BUSINESS

Revised Edition

Sue Viskovic CFP®

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CREATING THE RIGHT FEE MODEL FOR *YOUR* FINANCIAL ADVICE BUSINESS

Sue Viskovic CFP®

Brought to you by **ELIXIR CONSULTING**

www.pricingadvice.com.au

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ISBN: 978-0-9923471-1-6

Design and layout by RagTop Design, info@ragtop.com.au
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Printed by Metropress, mark@metropress.com.au

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ABOUT THE AUTHOR

Sue has had a long-term love affair with business. She cut her teeth in the competitive world of Performing Arts and by the tender age of 22 was running a school with over 500 students and a teaching staff of 20. Discovering her love of business was greater than the fickle world of the Arts, she then moved into commercial property leasing, before finding her place in the Financial Services industry in Australia in 1997.

Finally, she was able to really make a difference to people's lives through improving the delivery of valuable financial advice. Her experience includes banking and funds management, dealer group management and financial advising. Since her early days as a BDM with Challenger International, Sue has always taken a consultative approach to providing support to financial advisers around Australia.

She narrowed her focus to practice management in 2002, when she joined Bridges Financial Services in a Practice Development Manager role. Later, she decided to put her education to work, and experience running a practice firsthand. She ran the Sydney office of Prosperity Advisers, where she managed teams of financial planners and chartered accountants, and provided financial advice to private clients.

She returned to practice management at Epic Adviser Solutions/Sentry Group until she founded Elixir Consulting in 2007.

Recognising a need for independent research into adviser pricing models, and also sensing a growing need for independent practice management and business

coaching, Sue brought together a team of consultants to assist financial advisers around Australia to improve their businesses, and therefore their quality of advice and the financial outcomes for business owners, their staff and clients.

In 2009, Elixir Consulting released Sue's world-first research report into financial adviser pricing models in Australia, and followed this with a second edition in 2012. This book, Pricing Advice was first released in 2010 and after selling over 2,500 copies in Australia, has now been revised in 2013, and released globally. The corresponding online program has already helped hundreds of advisers to create and maintain their own pricing models.

Sue is a sought-after speaker and regularly presents at conferences and professional development days. She has become a drawcard who consistently receives strong feedback on her dynamic, engaging and straight-talking style. She has an ability to share often complex concepts in a simple, powerful way, to inspire evolved thinking and action. Sue understands the delicate balance between servicing client needs and the practical management of a financial advice business, and she is passionate about assisting advisers to improve both.

TESTIMONIALS

"Sue has a clear and methodical method for determining the appropriate level of fees to charge our clients. Breaking down the time involved in setting up and servicing each new client is imperative in order to get a grasp on the appropriate fee to charge initially and ongoing. Coupled with the Client Service document it ensures each client understands what they are paying and what services they expect to receive, which we consider to be best practice."

Neil Hancy, B.Bus, CFP, Financial Planner, Abbott Financial Planning, Mt Lawley

"Engaging Sue Viskovic as our expert speaker has been greatly appreciated by our clients. The advisers felt that her style of presentation, expertise and passion to assist advisers in transitioning their fee models is unrivalled in our industry."

Kristine Wade, Head of Retail Sales—Life and Investments, Zurich Financial Services

"I spent close to 15 years running my own planning business and I like to think that we ran an innovative and successful firm. I also think that gives me the ability to critically judge the content of this great book. This book will arm you with the knowledge and insight to enable you to improve and refine your financial advice pricing model and value proposition. Even if you think you have it right, I suggest making the small investment in this book, it will pay dividends. "

Baz Gardner, Founder and Principal, The Social Adviser, Brisbane

"I have great admiration for Sue Viskovic, Elixir Consulting founder, and principal author of several studies on pricing financial advice. Her work in practice development has been of great benefit to many planners around Australia and as Elixir Consulting expands that looks set to continue growing. Elixir's recent work on pricing financial advice is outstanding and has captured the attention of many advisers. I would encourage all advisers to read these reports to understand more fully how they can secure their revenue and add value to their business in the longer term. I am a firm believer that to add value to any practice you need to work more on your business and less in your business. Elixir Consulting delivers the know-how to do this. They understand the business end of the advice industry better than anyone and would be my number one choice to outsource this important role to."

Warren Gibson, General Manager, Domacom, Melbourne

"I first met Sue when she was presenting on creating the right fee model to a small group of financial planners in Perth. Her presentation made so much sense to me that I also bought her book on this subject, some chapters of which I am referring to on an ongoing basis. When the opportunity arose to sign up for the (Business Evolution) Program with Sue we jumped at it and three of us from our small company attended. The program was terrific and great value for money.

We commenced implementation earlier this year (2011) with a target of signing up 100 clients by 30 June 2011 onto our new service packages (which we have met). During the early stages of implementation we met with Sue for our three coaching sessions to discuss any problems and also to complete role plays to review our discussion style with clients. We are now well and truly off and running.

I can without hesitation highly recommend Sue and the Elixir team to anyone wanting to explore their pricing options, and I am sure they will be delighted with the result. Sue has been extremely professional and worked hard to ensure that we achieved our goal of a pricing model that would become an integral part of our growth plans. Sue was terrific to work with and has a great sense of humour which we all needed at times. If you are confused and unsure of your direction given all the changes coming our way, do yourself a favour and contact Elixir Consulting."

Graham Smith, Director, Smith Wealth Partners, Perth

"Sue has shown impeccable insight into the future of financial planning and the inability of financial planners to derive revenue from their efforts and clients. Sue helped us to focus our pricing on the value that we provide to our clients. Even through the 'GFC' we achieved revenue growth in no small part due to implementing a pricing model that is fair to our clients and commercially rewarding for our business."

Greg Meyers, CFP, Royal Cornell Financial Services

"Sue's knowledge base extends from experience as a qualified CFP and so she understands the real world of applying fees, not just the theoretical world of practice management applied by many consultants."

Ian Knox, Managing Director, Paragem Partners, Sydney

"Sue Viskovic's book on Pricing Advice is a triumph and a must read for every financial adviser. I highly recommend Sue to any financial planning firm looking to get the pricing of their value right."

David Penglase, Director, SalesCoachCentral.com, Sydney

"We were pleasantly surprised by how relevant this program was to our business and also how broad it is—this is not just about charging fees, it's also about looking at your entire business to ensure that you provide value for the fees you charge."

Damien Passmore, Lawler Financial Services, Newcastle

"I engaged Sue to get my head around a Fee for Service offering for my clients. With her vast experience on the subject and knowing that no two planning practices are the same, we arrived at an outcome that surpassed my expectations. Sue was generous in what she provided us and made a point of following up our progress. I would thoroughly recommend Sue to any financial planning practice, regardless of how mature the business is."

Mark Lewin, Director, Markson Financial Planning, Sydney

"I would like to thank you very much for this Pricing Program. It has been of tremendous value to me and I wish I had completed it years ago. It has given me new confidence in expressing my value to my clients and really helped me prepare positively for upcoming legislative changes. To those financial advisers wishing to ensure their long-term success and engagement with their clients, I cannot recommend this program highly enough and think it's the best investment I've made in a very long time."

Harvey James, Director, ANU Wealth Services (completed the Pricing Advice online program)

"In 15 years in the industry I have not seen a response from a round of PD delays as I have seen with these. Sue can clearly articulate her research and offers practical hands-on solutions. Sue has experience across the industry from product manufacturing and distribution through to General management of a financial planning business as well as being adviser herself. She understands the core of business sustainability and profitability which many of these types of firms do not. I would recommend any financial services business from manufacturers of financial instruments through to dealer group to get in touch with Sue for an immediate meeting. How refreshing!!!"

Chris Dalton, National Sales Manager, Next Financial Limited

THANK YOU

A huge thank you goes out to all those who have contributed in some way to this book and the Pricing Advice Program:

- To the advisers who so generously opened their doors and shared the inner workings of what is a very personal part of their business,
- To the many advisers and licensees who have provided the inspiration and the feedback to help us build tools that will continue to improve the profession of financial advice,
- To my clients who have engaged me over the years; especially those in the early days who helped me develop my program with practical trial and (hopefully not too much) error,
- To Carl the Rock Star, my graphic designer whose creative genius knows no bounds,
- To the multitude of advisers who have buoyed and humbled me over the past three years by sharing their positive experiences and the influence my book has had on their success,
- To my unflappable right hand man Nick, without whom I could not run a business, a family of six, a team of extraordinary consultants, and keep Qantas in business with my many, many flights,
- To my outstanding team of extraordinary consultants, in particular Lana Clark and Stewart Bell, who all do amazing work and continue to spread the Elixir of helping advisers evolve their businesses, and so generously and unashamedly share their triumphs and challenges with each other,
- And saving the best 'til last, to my husband Boris and my four little monkeys—thankyou for your love, support and inspiration. You keep it real, fun and noisy and you make the travel and late nights all worthwhile! I love you all, passionately, unabashedly and eternally.

CONTENTS

10 INTRODUCTION

13 CHAPTER ONE COMMISSIONS

18 CHAPTER TWO WHAT ARE YOUR OPTIONS FOR PRICING ADVICE –HOURLY RATES, FLAT FEES OR ASSET-BASED?

28 CHAPTER THREE ADVANTAGES AND DISADVANTAGES OF FLAT FEES

40 CHAPTER FOUR ADVANTAGES AND DISADVANTAGES OF ASSET-BASED FEES

48 CHAPTER FIVE SELECTIVE CLIENTELE

55 CHAPTER SIX CLIENT VALUE PROPOSITION

60 CHAPTER SEVEN PRO-BONO ADVICE

62 CHAPTER EIGHT PRICING INSURANCE ADVICE

72 CHAPTER NINE UPFRONT VS ONGOING FEES

78 CHAPTER TEN FOUR FEE MODELS THAT WORK

84 CHAPTER ELEVEN CALCULATE YOUR CHARGE-OUT RATE

91 CHAPTER TWELVE DETERMINING YOUR INITIAL ADVICE FEES

98 CHAPTER THIRTEEN ONGOING FEES

107 CHAPTER FOURTEEN APPLYING A VALUE OVERLAY

115 CHAPTER FIFTEEN TOO MUCH?

122 CHAPTER SIXTEEN SELLING YOUR FEES PART ONE—PROCESS

135 CHAPTER SEVENTEEN SELLING YOUR FEES PART TWO—PRACTICE

142 CHAPTER EIGHTEEN IMPLEMENTING YOUR FEE MODEL

INTRODUCTION

In my career, I have worked with hundreds of advisers around Australia—at first as a fund manager BDM, but increasingly when I discovered my passion for practice development. I also spent two years (2004 and 2005) as an adviser, to finish my CFP qualification and more importantly to get first-hand experience in advising clients. In this role, I was working for a practice that charged a minimum $5,000 engagement fee and then an asset-based ongoing fee for advice. After another stint heading up practice development for a licensee, I started Elixir Consulting in 2007 to provide independent practice development and business coaching support to financial advisers.

My fascination with adviser pricing models started well before legislative change forced advisers to evolve beyond commissions. When I analysed each business that sought my coaching services, I invariably discovered that many of their issues stemmed from the fact that they weren't being paid the right amounts at the right times in their advice process. Commissions simply weren't an effective means of remuneration. Fast forward to today and advisers in many countries around the world are being forced by changes in legislation, to determine a more appropriate means of being paid.

I'm often told that Australian advice practices have had a head start on many of their peers around the world. It's not often that an industry—or correction—a profession—is further advanced in Australia than in other parts of the globe, and yet even before

there was any discussion of commissions being banned, a considerable number of Australian advisers chose to break new ground, and to replace commissions with fees as a deliberate choice for their business and clients. After its first release in 2010 I'm incredibly proud and humbled to say that this book, Pricing Advice, is now read by advisers around the world, in countries spread from Canada to Serbia, from the UK to the US to Hong Kong. The fundamentals in this book are just as relevant when applied to different currencies, from Pounds Sterling to the Yen, from Euros to Pesos.

Over the years I have assisted many advisers transition their business to a fee-for-service model, and I have been struck by the difficulties involved in such a complex issue. The first instinct of many advisers when they start down this path is to ask: "how does everyone else charge?" In 2007 my ability to answer that question was limited to those businesses I had direct involvement with which, coming from a funds management and dealer group background, was broader than many. However when I sought research on the subject, I discovered there wasn't any. Although I had experience in helping advisers successfully make the transition, I also knew that there was a lot of sense in having access to a broad range of ideas. This would allow advisers to expand their knowledge, and open their minds to a wide scope of alternatives, as well as learn from the experience of others who had been through the process before them.

So it was that I embarked upon a two-year qualitative study into 120 firms around Australia and discovered the inner workings of how they priced their services. I also gained an insight into their observations along the way. In 2009 I released the ***Elixir Consulting Adviser Pricing Models Research Report.***

I have travelled Australia speaking at conferences and working with hundreds of advisers to assist them in their own pricing journey. Using my first-hand experience, as well as knowledge gleaned from working with those advisers, I created the Pricing Advice Program, which includes this book, to try and provide helpful advice and proven methodologies to other advisers in the creation—or evolution—of their own pricing models.

My system has been adopted by a number of licensees, and has been followed now by hundreds of advisers, to create their own unique pricing models designed specifically for their own businesses. I have been thrilled to receive many emails and telephone calls from happy advisers who have found my program to be a pragmatic, effective way to evolve their pricing system, and ease their transition to a successful future without commissions.

In 2012, with the help of my esteemed colleague Lana Clark, I undertook another research project, and this time expanded the pool of subjects. Our second edition of the Pricing Research was released, sharing the insights gleaned from 433 advice businesses.

The other components of the Pricing Advice Program are:

- A DIY online program which provides the calculators and practical tools to work through our ten-step process and create a pricing model. The online subscription service allows advisers to benchmark their fees against other advisers in the Program and to share comments and thoughts in their own pricing journey.
- We also provide consulting services in the form of group and individual coaching sessions to assist advisers to get paid what they are worth, and build their ideal advice business.

Elixir Consulting now consists of a team of consultants based all around Australia. We have a wealth of knowledge and experience that we deliver to financial advisers and licensees in the areas of practice development, business coaching, and of course, assisting businesses with their transition to a fee-for-service model.

Creating a fee model is not a simple task—it is complex, it takes time, and it forces you to stop and reflect on how you do many things in your business. I encourage you to view this time in a positive light—seize this opportunity with both hands and use it to sort out those niggly issues that may have been bothering you about your business. I hope that the skills and thoughts in this book will help to make your journey more successful—and enjoyable. Good luck!

Sue Viskovic, Author, Pricing Advice,
Managing Director, Elixir Consulting.

CHAPTER ONE
COMMISSIONS

Since its evolution, the financial advice profession has ignored pricing as a business fundamental because our products and services have been priced for us. Fund managers and insurers have determined what prices we charge by the upfront and trail commission rates they set for their products.

Over time, many advisers had become unhappy with receiving commission—some because of the perceived biases with this model, some because of the inequities it creates in a business, and others simply because they don't want such an important business decision being made by a third party. More importantly, many advisers have discovered that often the amount of commission received has very little to do with the cost of providing advice, or the value received by the client.

Our profession has now evolved to a point where every financial planning practice owner is forced to address this issue and determine how they will price their services. This book is designed to provide food for thought for advisers transitioning from commissions to fees, as well as practical assistance with how to make it happen. Advisers are often disappointed to hear that there is no one-size-fits-all method of

charging for advice. The ideal pricing model must instead be determined by the stakeholders in each business and designed to suit their client base and the service delivery provided by their firm. While there is no single method of charging, there is a proven methodology and process that will allow advisers to create their own pricing model that suits their business and their clients.

Every business person has to go through a process to price their products and services at some stage, and most do it on a regular basis. A store owner has to determine the margin to apply over their cost price. An accountant or solicitor, even a plumber, has to determine their hourly rate and minimum job cost. Surgeons have to determine their fees for each operation they perform.

Whilst it is a common practice for business owners to price their services, the challenges you face in a financial advice practice are quite unique:

- Apart from the fact that this process may be foreign to you, advice is intangible. What you are selling is your intellectual property, and the outcomes that you can help your clients to achieve. Clients are paying for your ability to help them define their goals and objectives, and then to analyse their position and work out *how* to achieve those goals. You then inspire them to implement your advice to actually *achieve* them; not once but over time. If you simply sold widgets, it would be easy to apply a margin to the wholesale price you pay for your stock and be done with it.
- Often clients don't understand what advice is—they have little idea of what to expect, and sometimes can't grasp just how important it can be and what an amazing impact it can have on their lives until they experience good advice first-hand. Problem is, they need to decide to pay for advice before they get to truly understand its value. So how do you create a pricing model that allows them to do this?

Let's not forget that financial advice represents an outstanding business opportunity. You have no stock on hand, no need for warehousing, and there are few other businesses that can say on the first of January, that they essentially know who their clients will be and what revenue they are likely to earn in the year ahead. Most businesses are reliant upon their next sale to put food on the table, whereas in financial advice, each new client adds to the pool of existing clients who pay you an ongoing retainer for your services.

Add this to the fact that it is hugely rewarding to work with people, to be in a position to give so much to your clients and really make a tangible difference in their lives, and you can understand why we put up with such frequent changes in legislation.

There is a reason why advice businesses achieve sale prices of 2–3.5 times recurring revenue, where other industries such as accounting are valued on a much lower scale. The traditional financial advice business achieved a great deal of leverage in their revenue. Trail commissions built up over time, and were not necessarily linked to service or time output from the firm, so many advice practices continued to grow their income without having to grow their overheads. Contrary to what some may believe, this premium in business valuations was not simply a result of advisers receiving commissions. It's due to the fact that the very nature of financial advice is not simply about a transaction. Clients are seeking an ongoing relationship with someone they can trust, who will be there for them in the future, who will keep them accountable to the strategies they employ, and keep their financial plan dynamic in order to stay effective despite economic, legislative and their personal changes.

It is vital when creating a pricing model to replace a commission book or even asset-based fee model, that you don't reduce the value of your business by removing this leverage in your income. The great news is, you can keep the leverage yet also increase the service levels to your clients, thereby reducing the attrition rate of clients leaving your firm, and increasing loyalty, and therefore new referrals.

One argument that many advisers have used to support commissions is that their clients wouldn't be able to afford them if they had to pay a fee. This is due to the reality that wealthy clients subsidise the less wealthy in a client base. Whilst most advisers generally accept this, I'm not sure the wealthier clients would if they were given the choice. What is most troubling from a business perspective, is that in many cases, advisers have not kept track of the extent to which this is happening and when they analyse the business, they discover that in fact the ratio of wealthier to less-wealthy—profitable to loss-making—clients is not in their favour. By creating an appropriate fee model and being disciplined in charging it, along with selecting clients based upon their propensity to pay and ability to receive value from you for those fees, you can ensure that your business is profitable and that you (or your successor) will be around to continue providing advice to your clients who need it, over the long-term.

So regardless of whether you're undertaking this process by choice or have been forced into it by legislation, ***congratulations*** on taking action. We understand that you may have change fatigue right now. You have dealt with consistent regulatory change, you got through the GFC, and now this has hit you. Take heart that it is an excellent opportunity. We guarantee you that undertaking the process to create a pricing model will be very beneficial to your business. Whilst it is a significant investment in time, it forces advisers to reflect not only on how they deliver their advice but how they manage their entire business, which invariably leads to some degree of improvement.

Most businesses achieve a significant return on this investment. If there is more than one adviser in your business, we would encourage you to get them to read this book too, and assist you in creating your pricing model, for two reasons:

1. They know your business and your clients so they can provide insights and assistance, but more importantly,
2. They will also have to put your new fee model in front of clients, and if they have been engaged in the creation of the model, they will be more likely to embrace it and will have better success at implementing it.

If you've chosen to only purchase this book and not the other tools in the Pricing Advice Program, you may find greater success if you call upon the support of someone you trust who is external to your business. This may be a PDM from your licensee, a BDM from a fund manager, or perhaps another adviser outside your practice. Evidence in our pricing research showed that those advisers who sought external assistance achieved better, faster results from their transition to fees.

The advice of someone outside your business can be invaluable. Someone who is not emotionally connected to your business and clients, someone who has experience with what else is working in the marketplace. Someone who can hear your words through a client's ears and give you an objective interpretation. They may give you some jewels of insight that you hadn't thought of, or they may simply be useful in allowing you a sounding board to discuss your thoughts out loud.

One thing you may already know is that the conversations you will have with your clients and the way you position your advice will likely change. Now that they will be charged in a more transparent fashion, clients will be more inclined to want to see value for the fees they pay. You'll need a good strong value proposition, and you'll need to be able to clearly relate that value to each individual client.

It is vitally important that you go through a process to create the fee model for your practice, rather than adopting someone else's model, or worse, simply converting the amount you receive as trail commission into an asset-based fee.

The simple fact is that if you have been running a business based on trail income, and you have not applied minimum ongoing fees, you will have a legacy trail book of clients. Those are people from whom you don't receive enough revenue to warrant giving them a full review service. As a result, these clients don't get serviced at all, or perhaps receive a newsletter and access to you if they need it. Until now, that book has subsidised your cashflow, so you may have been able to run at a profit, and effectively charge your new clients subsidised fees.

With the changes in legislation and subsequent consumer sentiment around commissions, you can expect that even though the grandfathering provisions will allow your current trails to continue, you will experience significant attrition from your trail book as clients flock to transfer their funds to nil commission products. In order to remain profitable you will likely need to start charging more for your advice. The best way to gain the confidence to do so—and create some degree of accuracy in what to charge—is to undertake a process that analyses the costs to run your business, and the needs of the client market that you work with. Once you undertake this process, you will find it becomes much easier to start charging what you're worth.

Speaking from experience...

Simon Hoyle, Editor, Professional Planner Magazine.

“No one who wants to be thought of as a genuine professional can do anything but charge a genuine fee for service—and by that I mean a fee that does not depend on a price set by an irrelevant third party (such as a product manufacturer), and does not depend on factors outside the planner's control (such as investment markets). A professional service should not necessarily be solely time-based, either (it rewards inefficiency).

The value of a professional lies in the expertise, experience, qualifications and ongoing development that an individual attains. A professional should therefore price a service on exactly those factors. Asset-based fees in particular seem completely contrary to that philosophy. Why should one client generate more revenue for a practice than another, just because they have different sized portfolios? If asset values rise by 10 per cent in a year, a planner's services are not automatically 10 per cent more valuable. Conversely, if asset values fall 10 per cent, the services should not automatically be worth 10 per cent less.

Being a professional is different from merely being someone who behaves professionally—being a professional denotes explicit adherence to a code of conduct, membership of a professional association and all that entails (including disciplinary processes), having achieved a high standard of education and being committed to ongoing professional development. And a big part of being a professional is having the self respect and the confidence to charge a healthy fee, and to take control of all aspects of the planner/client relationship—including the value and price of a suite of high-quality and valuable professional services.”

CHAPTER TWO

WHAT ARE YOUR OPTIONS FOR PRICING ADVICE —HOURLY RATES, FLAT FEES OR ASSET-BASED?

One of the overwhelming outcomes we discovered in our research, which we will explore further in Chapter 6, was that there is no one-size-fits-all pricing model that suits every client base. If there was, you wouldn't have to go through all of this work!

Just as the needs of every client are different, so too are the needs and objectives of every business owner. We don't prescribe a single pricing model to suit every business; we believe advisers need to select the model that suits them and their client base.

The options are:

- Time-Based billing—charging clients by the hour, retrospectively.
- Flat Fees—charging clients an amount that is quoted in dollar terms, regardless of how much they will invest with you,
- Asset-Based Fees—a percentage that is applied against the funds that you manage directly—either via an administration platform, a wrap account, or via retail funds.
- A combination of flat fees and asset-based fees.

You will need to consider the collection method you will use when deciding on your fee structure. Charging fees does not mean that you need to start invoicing people and have them pay you manually out of their cashflow. You should aim to keep the collection method as simple and painless as possible both for your business and the client.

Most advisers are paid by their administration platform, and this is a simple system that suits the client and adviser alike. You should arrange for your client to pay your fees from the place that best suits *them*, in the most cost-effective and tax-effective manner possible. This should, in fact, form part of your financial advice to the client.

There has been some confusion here which needs to be cleared up—if you have decided upon the fee structure, the client has agreed to it, and they can switch it off in the event they no longer want you as their adviser, it is a fee. Just because it is administered by a fund manager does not make it a commission.

You need to know what your platform(s) can manage in terms of administration. Some platforms allow you to select ONLY a fixed dollar amount OR a percentage of assets, whilst others allow you to select both. Make sure you know what yours can do before creating an overly complicated pricing model that you won't be able to administer.

Of course, you can also set up a direct debit facility from the client's bank account (or their cash management trust). Most licensees nowadays can provide this facility, and there are also a number of online providers that can administer this for you (Paypal, Ezidebit, Ezypay, etc).

Charging by the hour

We believe that for the sake of the client, as well as for your business, time-based billing is not an appropriate charging model for financial advice. We are referring here to the practice of charging clients for the amount of time it takes to complete their work on a retrospective basis.

Some other providers of advice, such as lawyers and accountants charge in this way. However, many of them are unhappy with the method too, and are struggling to come up with a better alternative to charge for their services.

Interestingly, there was a Government enquiry called in Australia in 1994 (Legal Fees Review Panel) to look into legal fees and overcharging, after Hon. JJ Spigelman, The Chief Justice of the Supreme Court of NSW, called for an end to the "tyranny of the billable hour".

Excerpt from the UNSW Law Journal Volume 27 (1)

"While hourly billing has the appearance of objectivity and may be beneficial in that it allows a practitioner to provide a client with an itemised statement as tangible evidence of work done, it fails to provide the client with information about the value of the service provided and obtained. Consumers of legal services are not just concerned about what they are charged, but about the value and quality of the service they receive. From a client's point of view, the hourly fee structure may not necessarily reflect the true value of the service provided.

In his speech at the opening of the Law Term, the Chief Justice of NSW stated that the inherent weakness in hourly billing is that it reduces the incentive to work productively and efficiently. While in his view most members of the profession act ethically, there are those who exploit their position by providing services that are either not required at all, or providing them in a manner that results in unnecessarily high fees. Such conduct, even by a minority, his Honour suggested, affects the reputation of the profession as a whole and may determine the nature of external regulation.

His Honour Justice Davies, in a speech given in 1995 at the 29th Australian Legal Convention, commented that a costs system should not only be predictable, but the fairness of the costs should be verifiable by reference to some objective benchmark. His Honour said that the inherent problem with legal fees charged at an hourly rate was the lack of an objective benchmark. The present system of hourly billing, his Honour suggested, is open to abuse and is often difficult for a client to identify whether particular work carried out is both necessary and reasonably costed.

In other jurisdictions, for example in the United States, commentators have likewise taken the view that time-based billing is liable to lead to unethical billing practices such as double billing. The time-based system, involving hourly rates, has been blamed for rewarding incompetence and it has been said that the lack of any proper mechanisms for verifying time records has resulted in creative time-keeping. With firms pushing to maximise profits, employed lawyers often feel under pressure to enter as many hours as possible in order to meet billing targets. Inevitably, some have engaged in unethical practices, and some junior lawyers have admitted to double billing, padding and over billing. As one commentator has argued, the use of time-based billing targets raises serious ethical questions about the hourly fee structure."

It is interesting to note the current pricing methods used by solicitors, some six years after that enquiry. The Law Society of NSW website explains how lawyers charge fees to consumers as follows:

> "Under the Legal Profession Act 2004, solicitors are entitled to charge fees which are fair and reasonable. Some areas of the law are regulated by fee scales, for example, grant of probate and some worker's compensation claims. In most areas of the law, costs may be calculated in any of the following ways:
>
> - a fixed amount
> - an hourly rate
> - an hourly rate with a ceiling on the maximum amount
> - no win, no pay
> - a method of charging as negotiated to suit the circumstances.
>
> In addition to their fees, solicitors will charge you for expenses incurred on your behalf, for example, barrister's fees or court fees.
>
> They cannot charge you for:
>
> - preparing a costs agreement
> - making disclosures to you, or
> - preparing your bill
>
> Why do solicitors' fees vary?
>
> Fees between solicitors vary due to differences in:
>
> - Expertise—specialists in a particular area often charge more than a non-specialist
> - Seniority—work carried out by a partner of a firm will cost more than work done by a junior solicitor
> - Location—services in metropolitan areas are often higher than in rural or regional areas
> - Urgency—special fees sometimes apply for urgent work."

So you can see that there is considerable variance in the way solicitors are entitled to charge. Financial advisers could take particular note of the last section, and consider employing fees that vary depending not only upon the seniority of the adviser but also the specialisation, along with the complexity of any given client's personal circumstances.

In fact, the nature of financial advice is very different to that of legal or accounting advice. Financial planning is an ongoing relationship that is forward-looking, it is not a transactional relationship brought about to analyse/report/defend past events.

If someone needs the assistance of a lawyer it is usually for a finite period—they have a property dispute, or property settlement; they are going through a divorce, or require a pre-nup; they're being sued; they are writing their will, the list goes on.

Granted, most people go back to the same accountant each year, but the majority of accounting work is historical in nature, reporting and analysing income and tax in order to lodge a tax return that is required by law. Sure, those with simple affairs can do their own tax returns, but most accounting work is undertaken because it has to be (tax returns, audits, etc).

The big difference is that our clients come to us by choice. Sometimes it is because they are forced to act, and are unsure of how to handle redundancy or their own retirement, for example. But in the main, clients *choose* to seek financial advice because they are choosing to improve their financial future. Although we are all in professions that provide quality advice for the benefit of our clients, the similarities between financial advisers, lawyers and accountants end there.

From a business management perspective, it is important to know the time spent and costs incurred to deliver advice to clients in order to ensure that the fees charged at least cover your outlay.

Our suggested method in ***Pricing Advice*** will allow you to do this. However, advisers should use this information as a guide only, and create a fee model around it.

To put it plainly, clients don't care what it costs you to do something; they're looking for answers and outcomes. There are numerous arguments against charging for financial advice by the hour, and we summarise them here, looking from the clients' perspective first.

Hourly fees are bad for the client

- Time-based fees are perceived to be unethical—it is always in the clients' best interests to get the job done efficiently, but time-based billing rewards the adviser who takes longer to get the work done.

- Time-based billing will discourage client contact. Your clients should not have to make an investment decision every time they want to talk to you. They

should feel comfortable that they can ask you a question, discuss any fears, request more information and clarify your advice without having to worry about getting billed more. Most advisers would also recognise that the more you know about what's happening in your clients' life, the better you can ensure that they make good financial decisions.

- Most people hate surprises, especially when opening a bill. Time-based billing means that the client is billed after the event, when it is too late for them to decide whether they feel the amount is reasonable for the value they received. When the focus is on a long-term relationship, why create the potential for disputes over the issue of fees when it is so easily avoidable?

- Advisers often analyse strategies that ultimately turn out not to be appropriate for a client. A transition to retirement strategy is a good case in point—you must run the numbers before deciding if the strategy is worthwhile. Very few clients would see value in a bill they receive for time spent only to make a recommendation to 'do nothing'.

Hourly fees are bad for your business

- Prudent financial management says maximise your bottom line and minimise your overheads (staffing costs). How do you do that if you charge hourly fees? The only way to grow your business is to grow your overheads. If you are selling time, then the only way to generate more revenue is to employ more staff, whose time you will sell. Anyone who has made a poor choice of staff member will attest that staffing is one of the greatest risks in your business. The wrong people can cost you a great deal more than the salary they are paid.

- How do you account for all of the time spent that is not specifically attributed to one client, such as attending conferences, analysing legislative changes and their impact on strategies, researching funds and creating portfolios? Our solution will be to consider this time to be non-billable time and build it into your charge-out rate. However, it does not accurately account for the time spent for any particular client group, such as those with self-managed super funds or those receiving Centrelink benefits.

- Time-based billing creates a significant administrative burden for a business as well as the cost to purchase the software. Assuming everyone will be diligent about logging their entire day into their time sheets, once a month the whole firm shuts down to do billing—hours are tallied, bills are collated, and

then clients are invoiced (or held in WIP until the job is completed). In most accounting firms, a partner will view the time billed, and often 'write down' work that seems excessive, leading most to question why they bothered keeping time sheets in the first place! Invoices are then created and sent out, and someone has to chase up the debtors.

- One of the benefits of flat fees for client and adviser alike is that in most cases, clients can pay their fees via a direct deduction from their super fund or investment account on a monthly basis, without having to access their personal household cashflow. Time-based billing in arrears (as it must be, by its very nature) means that accounts will vary from month to month, so an automated payment system cannot be established. Not only does this create inconvenience for the client, but it adds further administrative time and cost as previously noted.

As is often the case, there is an exception to this rule.

It may be appropriate to use time-based billing if you choose to give transactional or simple one-off advice for the client who really won't get value from your minimum fees, but you'd like to spend a few hours with them to provide them with at least some level of assistance. This may be particularly common in small country towns, where 'everyone knows everyone', and you'd prefer not to turn them away—or charge them for a full service they don't need. It may also be used where a client refers a family member who really does need your help, but who can be assisted in a short space of time.

In these instances, charging by the hour may be appropriate. However, for all of the reasons we have discussed, it is an inappropriate model to use for clients with whom you seek an ongoing relationship, and who will benefit from one of your full service offerings.

So what are your options?

If charging by the hour is inappropriate for financial advice, what are your options? In a nutshell, they are flat fees, asset-based fees, or a combination of the two. This book is written with the intent that each adviser should select the model that is most appropriate for their business, rather than us dictating the system. Each of these options has its own benefits and shortcomings, and we will discuss these now.

You will notice as you read through the next two chapters that some of the benefits/shortcomings are clearly focused on the outcome for the business, whilst others focus on the outcome for the client. The fact is that the two don't have to be mutually

exclusive—what is good for the client can be good for the business and vice-versa. We're going to drill down a long way and do lots of navel gazing here.

It's good to remember that your clients probably won't think this hard about your fees—ever! Now that there has been such a focus on fees in the media, they may ask a few more questions, but it is unlikely they will think about it to this depth.

The reason I have included the following two chapters is to allow you to make a truly considered decision about what structure you will use, because you are the one who will need to be totally comfortable with your fee model. Take the time to consider all angles—open your mind and consider the pros and cons of all models, and then select the one that is right for you as a person, for your business, and for your clients. In reality, your clients will be happy to pay whichever model you choose, as you should be able to sell it to them based on the benefits, and your own conviction in using that model. It is most important that you make the decision about what is right for you and your clients, after considering the options, and I urge you to do this, rather than simply sticking with what feels most comfortable.

Speaking from experience...

David Rae CFP®, Director, Beames & Associates

Throughout the GFC, a criticism that I heard many times from clients was "why am I paying fees when my money keeps going backwards?". For me this brought home two key points:

1) *For some clients, there was a disconnect between the service and advice they were getting and what they thought they were paying for ie. in this case they thought they were paying for consistently positive performance*

2) *I needed to be clearer about the service I provide and how much the client pays for it.*

Being both an accounting and financial services business our clients were certainly familiar with time based billing. My view is that it doesn't necessarily encourage inefficient work practices but the incentive to innovate and improve efficiency can be lacking because it results in lower revenue.

For many years we had charged a combination of flat fees for initial advice and percentage of assets for ongoing advice. This approach was something that had evolved over the years but I felt was time to review.

I initially thought that deciding on a pricing model would be a reasonably straightforward process. Before embarking on the journey I had a fair idea of which method I thought I would ultimately use. I conducted fairly extensive research, spoke to numerous other advisers about how they charged and finally engaged a consultant to give an expert view.

We put all the options on the table in our review including a hybrid combination of flat fee and percentage for ongoing.

Ultimately one of the most important considerations for me was providing a clearer outline of the services to be provided and fees to be paid. I believe I should be remunerated for an agreed level of service and that a rising or falling sharemarket should not dictate how much I get paid. My value is in providing quality advice and achieving outcomes for clients.

This meant that in the end I went with flat fees, which was exactly where I thought I'd end up. However if I had gone straight to that answer, I wouldn't have had the understanding and confidence to explain why. I would also not have been as clear in my own mind about why I don't think the other options are right for me.

Having explored all the alternatives in detail including pro and cons from both the client and business point of view, I worked out what was most suitable for me. I can stand in front of a client and articulate why I charge the way I do and why I believe it most appropriate for them. ”

CHAPTER THREE
ADVANTAGES AND DISADVANTAGES OF FLAT FEES

A Flat Fee model is one where clients are charged a fee that is quoted in dollar terms, irrespective of the amount of money they will invest with you.

The term “flat fee” is more accurate than “fixed fee” as you may not have a fixed fee for everything you do in the business—you may quote each client their own fixed fee but the amount may be different to what is quoted to the next client. You may also create a flat fee model that allows you to add to your fee if the client’s complexity increases after the initial quote. In this instance, ‘fixed fee’ would be misleading.

Advantages of Flat Fees

1. Flat fees are simple to understand and articulate. This model provides absolute clarity and transparency for the client.

2. Flat Fees break the link between investment/product advice and financial advice—financial advice and value can be provided without the requirement for product placement. Most advisers would vehemently deny that their judgement is clouded by the need to maintain or build FUM, but why position yourself for

temptation? A flat fee model empowers the adviser to provide advice for the client first, every time. There is no reason to hesitate in recommending funds be directed to debt reduction, direct property, or external accounts when the payment for advice is the same regardless of the investments placed.

3. If positioned correctly, this model can lead to a deeper relationship—the client value proposition is about outcomes for the client, not investment returns.

4. Avoid conflicts—advice delivered is more likely to be product **and** asset-neutral. Clients would be unlikely to accuse you of favouring in-house products because you were paid more to do so.

5. Fees can be determined that are commensurate with the level of service required and delivered. Clients are happy as they get what they pay for, and you can be confident that you choose who receives pro-bono advice, rather than over-servicing some clients who expect the world but only pay for an atlas. The firm can ensure that minimum cost recovery is achieved from every client.

6. Clients tend to be more aware of the fees they are paying, and this may encourage more proactive ongoing client engagement—the adviser needs to continue to demonstrate value, and the clients want to avail themselves of the services they are paying for.

7. Flat fees are the strongest tool to recession-proof an advice business. It is debateable whether this is a completely achievable goal but recurring revenue to the firm doesn't drop when markets do—at a time when advisers arguably have to work harder and spend more time with their clients. This fact was proven during the Global Financial Crisis of 2008/2009.

   Advice firms who charged set-dollar fees experienced little reduction in their recurring revenue, whereas their peers charging asset-based fees, who reported losses in excess of 20%–30% of revenue. There were a number of advisers who received asset-based fees on highly geared portfolios who lost their businesses completely. That didn't serve their clients well, at a time that they needed advice to help them rebuild their asset-base.

   On the whole, most advisers experienced a reduction in new clients over this period, which meant that they couldn't compensate for their reduced recurring revenue with new fees. Many advisers were so busy putting out fires through

this time that they may not have had the time to service additional clients even if they had the opportunity.

There were however, a number of advice businesses who obtained a steady increase in new fees throughout this period. They received enquiries from clients who were disappointed in their previous advisers, who had based their value propositions on outperforming the markets, and were nowhere to be found when the clients needed them. It's likely that the reason these advisers continued to maintain strong relationships with their existing clients—and obtained new referrals—was because they had successfully positioned their value regardless of market conditions, and their fee model demonstrated this.

8. Flat fees enable advice provision to a broader range of clients, many of whom have not been well-serviced by our profession to date. Not only does a flat fee enable the adviser to provide much-needed advice, but marketed well, this fee model will actually attract more clients—those who may have significant needs or complexity but little in the way of assets and therefore need your help to build up their portfolios:
    - Consider the 40-something client earning significant income who has paid off their home loan before seeking advice.
    - Consider the client who has built a portfolio of investment properties and now seeks advice. They may be prepared to diversify their future investments but are cynical about advisers who 'only sell managed funds'.
    - Consider the 30-something client who has just taken a job on the mines, and started earning a six-figure income for the first time in their life. They're prepared to pay for advice so they don't end up like their peers—paying too much tax, with too many flat screen TVs and jet skis but not enough saved to show for their hard work and time spent away from home.

9. The business has much greater surety of income, which is better for budgeting, cash flow management, business planning etc.

10. The right model will allow for client migration as their needs change—they can move up or down the fee scale, dependent upon the service they require, not upon the funds they invest with you.

11. You still get paid for advice regardless of whether clients make redemptions, such as withdrawing funds to purchase a property or drawing down on funds in retirement, whilst still requiring the same level of service.

12. The business may be more attractive to a potential buyer due to the certainty of income.

13. Extremely flexible—advisers can charge purely on a time-cost basis, they can add value premiums, and can also add premiums for assets managed.

14. The business needs to continue reviewing the model used to determine the actual fees charged. Whilst this is seen as a disadvantage by some, the evidence undeniably shows that firms that maintain a focus on pricing correctly achieve better business outcomes.

15. Firms who offer broad in-house services, or take on a 'financial controller' role for their clients can incorporate other services into a total fee—accounting, estate planning etc.

16. Advisers who charge set fees irrespective of FUM find it easier to change licensees and are more likely to do so if they are unhappy with their current licensee. They are less reliant upon volume bonuses as they can be profitable without funds under management and may have less reliance upon income from in-house products. This is an advantage for firms who are not getting value from their licensee relationship, and advantageous for the receiving licensee (though not so much for the licensee they are leaving).

17. A flat fee model may be more attractive to potential and existing Centres of Influence that refer business to you. Many accountants find it more palatable and easier to promote financial advice to their clients if the referred adviser does not receive asset-based fees. Indeed, if you are attached to, or pay referral fees to, an accounting practice that is bound by the standards of the APESB, a flat fee model avoids the requirement to obtain additional informed client consent and implement additional disclosure measures that are outlined in APES230.

18. Flat fees provide the adviser with a rational basis to turn inappropriate clients away, which is better for the business in the long term.

    How often have you heard stories where advisers have quoted what they thought was a huge fee in order to discourage a client they didn't want, only to be surprised that the client went ahead? The rationale here is, "I don't want this client, but if they really want me to work with them they'll pay me a premium". In most cases, the relationship doesn't end well, and the premium

which appeared huge at the outset, is often—in hindsight—still not enough to cover the grief that was caused. It is often better to decline the client at the outset, with a firm but convincing: “In your circumstances, we will not be able to provide value for the fees we will need to charge you, but I can refer you to another business that is better equipped/designed to take care of you”.

19. The FoFA reforms in Australia have banned asset-based fees on geared investments; including where a client has re-drawn excess surplus from their home loan. Employing a flat fee model removes the administrative burden of differentiating between geared and non-geared investments, and the subsequent need to use different charging methods for different clients.

20. Initial Fees can be invoiced at the beginning or during the SOA development phase, which commits the client and improves cashflow, rather than having to wait until funds are lodged as with an asset-based arrangement. The time that elapses between an initial enquiry and implementation of a plan can be considerable, and there is a risk that the client may not implement the plan after all of the work has already been completed by the adviser.

Disadvantages of Flat Fees	
PROBLEM	**SOLUTION**
1. Revenue is not affected by markets—the adviser misses out on increasing their revenue when capital values increase, and potentially caps the 'upside' of their revenue growth.	A Flat fee model can be built on a matrix that incorporates the value of assets, reset on a regular basis, so when the client next meets for a review, the fee matrix is applied again and the fee is increased. In this way, a 'floor' is placed on the fee, so whilst the increase is not passed on in full, neither is the decrease when the markets drop.
2. Can create difficult conversations with clients—when markets have dropped your fee stays the same, regardless of what has happened to the net worth of the client.	Rarely an issue if the advice has been positioned well from the outset and market returns are kept in perspective with the long-term outcomes for the client. Advisers who educate their clients from the outset (where applicable) that managing their investment portfolio is only one part of their role, and explain their value in terms of assisting their clients to manage their cashflows, maximise contributions, minimise tax, make sound decisions, etc will have few (if any) of these comments from clients. If the methodology used to create the flat fee includes some measure for assets managed, the fee may indeed reduce by some amount anyway.
3. The fees charged need to be indexed each year otherwise the firm will start losing money. This may be difficult to administer automatically and may need to be signed off and discussed with the client each year, then actioned by admin staff. *What is the right measure to use—CPI or AWOTE? Clearly AWOTE, as your biggest overhead is likely your staff, although AWOTE is an unfamiliar measure for most clients.*	Some platforms allow for automatic indexation of flat fees. For those that don't, having the conversation at review should rarely be an issue for advisers who explain the benefits of the fee model from the outset, and are delivering value to the client. Many advisers already include a discussion about fees in their annual review as a natural inclusion in the agenda.

Disadvantages of Flat Fees	
PROBLEM	**SOLUTION**
4. This refocus on fees each year in order to increase them means that people have to keep making a buying decision to continue to engage you.	Again, if the client sees value in what you do, and you deliver what you have promised, it is unlikely that they will decide to cease your relationship. Regularly reviewing your importance and value is in fact a positive experience for both client and adviser, and can sometimes result in new offerings and profit centres in response to client feedback.
5. The adviser has no 'skin in the game'—there may be a perception that their interests are not aligned with the client's.	The reality is that you cannot control the markets, and claiming to do so is an inappropriate value proposition. The overheads of running your business are consistent, regardless of what markets do, and your client should much prefer that you stay in business to see them through the ups and downs, rather than suffering a significant reduction in revenue right at the times when they need you most.
6. Client cashflow constraints may impede payment if the fee is not taken from their assets.	Wherever possible, the fee should be paid by direct debit from a super or investment account, so that it does not get caught up with household expenses. If the client is following your advice, they should be managing their cashflow well, and this would not be a problem, unless they lose their job. If this happens to a valued client, the adviser may offer to suspend their ongoing fees until the client finds a new job; a generous offer that should guarantee that client for life, once they are back on their feet again.
7. Revenue is based on the volume of clients not the volume of assets managed, and if you get the pricing wrong, you may struggle to access the leverage you would get from an asset-based model.	By effectively applying a value overlay and not simply charging on a time basis, you may exceed the leverage you get from an asset-based model, especially considering the fact that you can service clients who may have assets outside of your control.

Disadvantages of Flat Fees	
PROBLEM	**SOLUTION**
8. It may be difficult to convert existing clients from a current FUM-based pricing model on to a new flat fee model, particularly if the 'skin in the game' argument has been used to promote the previous fee model.	By explaining the advantages listed in this book, most objections will be overcome.
9. Advisers who have always received trail or asset-based fees will find it harder to make the mind-shift to flat fees.	Human nature is what it is and many are inclined to take the path of least resistance, but if you really feel, after careful consideration, that a flat fee model is better for you, you will overcome your challenges.
10. May sound more expensive to the client. An adviser in our research recalled a prospective new client who had $200k to invest. They baulked at the adviser's upfront fee of $3,000 and said they would go back to the bank—as they were only going to charge them 3%!	By explaining the fee effectively, this will not be an issue. You may also choose to explain the flat fee in terms of what it represents as a percentage of their entire portfolio. This may actually be less than the percentage that would be applied against the assets invested with the adviser.
11. May be more difficult to administer if you have to do invoicing and manage debtors, etc.	We would always counsel collecting the fee in the most efficient way possible—certainly the same way as you would collect an asset-based fee—by direct debit from their investment or bank account. You may choose to invoice upfront fees, but certainly ongoing fees should be paid by regular automatic instalment, unless you offer a discount to encourage clients to pay a year in advance. Creating an invoice for the client's records should simply become part of your implementation and ongoing review process.

Disadvantages of Flat Fees	
PROBLEM	**SOLUTION**
12. It may be harder to articulate value and its relationship to the fee, i.e. we get paid the same amount regardless of what outcomes we achieve.	Actions speak louder than words—if you are diligent about servicing your client and your advice consistently proves to them that you have their outcomes as your first priority they will not have a problem in recognising value.
13. Advisers will struggle with this model if they are not good at sales and marketing—they MUST be able to articulate their value and justify their fee, especially in year two.	Any adviser will struggle regardless of their fee model if they are not able to articulate their value. Invest the time and effort to improve your sales skills and get a better handle on the value of your advice.
14. If the client is paying a fixed fee from a bank account, they may be confused if the debits are paid to the licensee when the advice business has a different name.	Easily explained when discussing your FSG and how licensing works.
15. A flat fee model doesn't price in the risk to the adviser for potential claims if an investment goes south. The higher the sum invested, the higher the potential claim.	You can create a flat fee model that includes some measure for the value of assets.
16. Even if you add an amount to your flat fee for the amount of FUM invested, there will always be a lag. If you set the fees annually, the markets may run during the year, but you're only being paid at what they were at the time you set the fee.	The same can be said for when markets drop—you may enjoy the higher fee until the next fee review, so you simply accept the good with the bad here.

Speaking from experience...

Robert M.C. Brown, AM, BEc, FCA
Chartered Accountant

Having been in practice as both a chartered accountant and financial planner for some thirty years, these days I spend much of my time doing financial education work. The combination of many years in practice and now in financial education has given me an excellent and balanced perspective on the financial planning industry and the needs of its clients.

If the financial planning industry really wants to be treated as a 'profession', then it needs to analyse what that word really means, and act accordingly. First and foremost, it means that we must act in the public interest, and secondly, to the extent that our actions are consistent with the public interest, we must act in the best interests of our clients.

Only then will be trusted by the community we serve. Unconditional community trust is the essence of professionalism. And in order to gain that unconditional trust, we must act in a remuneration zone that is free of conflicts of interest. Disclosure of conflicts of interest (which is essentially where most planners are now) is simply not enough.

If we believe that disclosure and transparency will lead to professional status, we are deluding ourselves. Clients will not trust a person who is acting under the influence of conflicts of interest, no matter how much disclosure exists. The traditional professions (accountants, lawyers and doctors) are substantially trusted because they operate in a 'conflict-free zone'. Consequently they have been allowed by parliament to self-regulate; whereas, the financial planning industry which doggedly persists with its delusion of reliance on the disclosure of deeply embedded remuneration-driven conflicts, is not trusted to act in the public interest, and is accordingly highly regulated, much to our ongoing disappointment.

The inconvenient reality is that disclosure doesn't work, at least it doesn't work well enough to create an unconditional trust of the industry that would allow it to be treated in the manner that the community treats the traditional professions (with all their human imperfections and notable failures).

So, in summary, a true profession must operate in a 'conflict-free zone', not in a 'conflict-disclosed zone'. This is the fundamental point.

Therefore, if we wish to be treated as a trusted profession by the community that we serve, we must use flat fees that are set at least annually by negotiation between the client and the adviser (no percentages).

I struggled with this issue for years in my own financial planning practice, before I accepted that if I wanted to be treated by clients and peers as a true professional (and truly believe that about myself), then I would have to drop percentage-based asset fees and other forms of conflicted remuneration. What a great decision and relief that proved to be.

The problem for much of the industry is that it hasn't made the complete journey to true professionalism. It still seems to be a case of hanging on to percentage-based asset fees as a surrogate for commissions, hoping that this will be enough to make the critics go away.

Of course, this position is strongly encouraged by institutions (who hate paying commissions); but they correctly believe that the maintenance of percentage-based asset fees will retain the conflicts of interests and the commercial alignments of interest with their product distribution networks.

Until we make the complete transition, we'll never be accepted in the way that doctors, lawyers and accountants are accepted by the community. What a great pity because our services are just as important, if not more important, in many situations.

The point is that if we are willing (or forced by law) to drop certain commissions paid by product providers because of the conflicts of interest and poor behaviour that they cause (and/or appear to cause), then we cannot legitimately and logically continue to support percentage-based asset fees, trailing commissions, commissions on the sale of life insurance and other remuneration structures that require the sale of products and the accumulation of FUM... Either we make the change voluntarily, or it will be imposed upon us. It's only a matter of time.

FOFA is a great example of this point. It's an 'own goal' if ever I've seen one, scored by us due to our unwillingness to self-regulate so as to remove and avoid all (not just some) remuneration conflicts.

As an industry and as individuals within it, we have a choice. Either we act comprehensively, in which case regulation and controls on us by governments will recede, or we continue to defend the indefensible status quo, in which case regulations and controls on us by governments will continue and increase.

I suspect that most financial planners would choose minimal government regulation any day of the week; but doing so comes at a short term price. The question is whether the industry is willing to pay that price to achieve greater profitability, professional independence and unqualified trust in the long run. Unless we are prepared to do so, the aspiring profession of financial planning has a bleak future.

It doesn't need to be that way. The decision is ours. We must choose wisely for the sake of our clients and for the sake of our idealistic young people who will be the financial planners of the future. ”

CHAPTER FOUR
ADVANTAGES AND DISADVANTAGES OF ASSET-BASED FEES

An Asset-based fee model is one where your fee is calculated and expressed as a percentage applied against the assets that you directly manage for your client. Typically, our research revealed that advisers currently charge in the vicinity of 0.8% to 1% of funds under management. Some advisers take a tiered approach, applying a lower percentage to funds above a certain threshold.

Naturally, many of the pros and cons for Flat fees will simply be reversed for Asset-Based Fees, but there are still a number of issues to consider.

Advantages of Asset-Based Fees

1. 0.8% or even 1% doesn't sound like very much to a client, so it may be easier to sell.
2. Perceived alignment of interests—the adviser will make more money when the client does, so it may be assumed that they have a greater incentive to manage the portfolio more attentively. The 'skin-in-the-game' argument.
3. An asset-based fee is automatically collected from the investments, meaning less admin time and cost, no accounts receivable, no debtors for the business.

4. This fact also makes it more convenient for the client—your fee doesn't need to come from their cashflow.
5. Revenue will increase as markets grow, and we know that despite volatility, the overall long-term market trend is up. An asset-based fee means there is no cap on the upside of the revenue a business can earn.
6. Revenue is based on the volume of assets rather than volume of clients—high account balances could require less work for more money. This also allows the adviser to divide their time among a smaller group of clients, meaning better relationships, and better advice.
7. Charging a flat percentage amount means that the advice is not conflicted or biased—the adviser is paid the same amount regardless of the underlying investments selected.
8. The adviser is automatically compensated for the additional risk in managing larger sums of money.
9. Easy to understand for clients—sounds simple, so fewer questions.
10. Simple to transition to an asset-based model from a commission model, i.e. the adviser and client do not need to get their heads around a new concept.

Disadvantages of Asset-Based Fees	
PROBLEM	**SOLUTION**
1. Focus is on value of the assets rather than advice.	In reality, once the fee has been explained at the beginning of the relationship, it is rarely explained again, so a good adviser will demonstrate the value of their advice consistently by their actions, rather than their fee model.
2. The business will lose revenue if they lose FUM—a client may decide to redeem some of their assets, therefore reducing your revenue, but they still expect the same level of service from you.	Impact can be softened by having a minimum fee payable (i.e. 1% with a minimum of $2,500 per annum or $250k invested), as well as a clearly articulated service offering that is explicit in its explanation of what services are provided for what fees.
3. Not reliable for future forecasting when business planning.	Keep a healthy profit margin in your planning—don't over-commit your cashflow—so that you can absorb some market movement before making a loss.

Disadvantages of Asset-Based Fees	
PROBLEM	**SOLUTION**
4. Difficult to collect if investing funds in direct equities. Unless the funds are invested via a platform (adding a layer of fees), it is hard to create a payment mechanism that automatically calculates the balance of the portfolio and applies the percentage to it, to determine the fee to deduct.	Whilst it will add a layer of additional fees, advisers can use platforms to manage the portfolio—and/or use IMA's or SMA's.
5. May compromise advice—you have an incentive to recommend products that you can earn a fee from—more likely to advise the client to invest in your platform rather than in property, direct shares etc.	It is your professional and moral duty to ensure that there is always appropriate justification for your investment strategies, and act in the best interest of your clients, placing their needs ahead of your own.
6. May not sound equitable to clients—i.e. $2 million doesn't take twice as much work to manage as $1 million.	You can create a model that has tiered rates—e.g. $0–$1 million is 1%, $1 to $2 million is 0.75%, etc. It is also important to explain the risks inherent in providing advice (and PI costs).
7. Revenue stops if asset-based fee is applied against products that are frozen.	All market participants should learn from the experience of the GFC. Fund managers must maintain better liquidity management, and licensees and advisers must conduct more stringent research, so the risk of funds being frozen is reduced. Whilst it is cold comfort to your business, it can be satisfying for the client to know that the adviser is 'sharing their pain' while the funds remain frozen.

Disadvantages of Asset-Based Fees	
PROBLEM	**SOLUTION**
8. It is prohibited under FoFA to charge asset-based fees on 'a borrowed amount used to acquire financial products'. If your firm provides advice to clients who borrow against equity in their home, or use margin lending to invest, you will need an alternative method to charge those clients, and this can lead to mixed messages and administrative difficulties in your business.	Either do not accept clients who will borrow to invest (broadly speaking, this will likely rule out an ideal client under 50), or ensure you have a thorough data-collecting process so that you become aware if a client will use borrowed funds before you quote your fee. Determine a flat pricing model as well as your asset-based model and employ robust administration systems in your office so that you can implement the right model dependant on each client's situation.
9. With the increased media scrutiny and negative comments about asset-based fees from groups such as the Accountants Professional and Ethical Standards Board (APESB), Industry funds and ASIC, asset-based fees have become tainted. Some would say they are just the new version of commissions.	Unlikely to be an issue for advisers who explain the benefits of the fee model from the outset, and are delivering value to the client. If you believe that an asset-based fee model is appropriate after considering all the disadvantages listed here, then it is the right model for your business, and your clients.
10. Not as transparent.	Fees are disclosed on the clients SOA and on their account statements, and in their annual FDS, so an asset-based fee is in fact just as visible as a Flat Fee.
11. May be giving advice for free if model doesn't include a minimum fee.	Can be avoided by either a minimum fee, or a minimum level of FUM that the asset-based fee is applied against.

Disadvantages of Asset-Based Fees	
PROBLEM	**SOLUTION**
12. If your client base has a large number of retirees, your fees automatically reduce as clients draw down their assets.	Some advisers say this has been paid in advance in the years that the clients' fees exceeded the service they required. In some cases, clients require less service in retirement as they travel more, and then later as their income needs reduce. (*Note, however that their needs can also peak as they move into aged care facilities)
13. You are effectively losing control of your pricing and are at the mercy of a range of factors outside of your control.	Remain diligent in your business planning activities so that you can adapt quickly if markets move, or if changes are forced upon you.
14. Wealthier clients subsidise less wealthy clients—people aren't necessarily paying for the service they receive.	Do not take on less wealthy clients—keep your ideal client model quite specific, but if you do choose to provide pro-bono advice, that is your prerogative as a business owner.
15. Advisers need to undertake regular reconciliation to ensure that administrators are paying properly—discrepancies often occur.	Ensure you have a structured implementation process in place and use reconciliation software to manage this issue.
16. May create the perception that you're an investment specialist and in control of performance.	Rarely an issue if the advice has been positioned well from the outset and market returns are kept in perspective with the long-term outcomes for the client.
17. Advisers can be emotionally affected when markets drop, as they empathise with their clients. Added stress on revenue with asset-based fees may push you towards depression.	The magnitude of the GFC was unusual and—hopefully—advisers have learned from the experience, and will ensure that they have plans in place to minimise their cashflow risks. If prone to depression, access to a strong support network is vital.

Disadvantages of Asset-Based Fees	
PROBLEM	**SOLUTION**
18. Can't provide advice to people with no assets.	Recognise this and ensure that your referral networks are such that they access only clients with FUM, who are therefore appropriate for your business model.
19. If you are attached to an Accounting practice that is governed by the ethical standards of the APESB, you are required to obtain 'written informed consent' from a client before charging an asset-based fee, and you have additional reporting requirements, adding a costly layer of administration.	Make sure you fully explain the nature of the asset-based fee and implement efficient procedures to obtain written informed consent, and implement the additional reporting requirements. Another (unlikely) solution is to cancel your membership with the professional association that ties you to the standards of the APESB.
20. May encourage product switching if the client is invested in a product that does not pay asset-based fees.	Again, this is down to your professional conduct. Always ensure that you act in the best interests of your clients, you have a reasonable basis for your advice, and that you explain this well to each client.
21. If the adviser hasn't explained the fee properly at the outset, the client may take issue with the dollar amount on the statement at review—they may have thought they understood the percentage but didn't realise how much it would actually be.	Ensure that you explain the fees thoroughly so that clients do not get any nasty surprises when they receive their statements.

Disadvantages of Asset-Based Fees	
PROBLEM	**SOLUTION**
22. Possible perception that the adviser may invest the client outside their risk profile—either more aggressively so the adviser has greater chance of upside in their revenue, or more conservatively so the adviser has less volatility in their revenue.	Take care not to influence a client when they are completing their risk profile, and always ensure that their investments are managed within their risk profile. Using a thorough system such as Finametrica will mitigate this perception.
23. Very imprecise—fees are only linked to FUM, not cost of advice, or value delivered.	By undertaking the process in this book to quantify your cost to serve, you may choose to apply minimums and/or tier your fee levels for higher amounts of FUM.
24. Clients are put into service packages based only on their money invested—nothing to do with the services they require (or get). One client with $500k may only need to have one review per year, whereas another client with $500k may demand three, and be on the phone frequently in between.	By effectively segmenting your offering, you can ensure that clients get serviced in accordance with their needs. This would mean reducing the percentage for clients with lower service requirements.
25. Usually applied to funds under management (FUM) not funds under advice (FUA)—clients may have money outside of the platform that also requires advice but against which you cannot apply your fee.	Remember that advice does not have to be directly related to the value of assets. Only provide advice to these clients if they have reached the threshold for your minimum amount invested and are paying an appropriate sum to cover the total advice provided.

Which model is most appropriate for your business?

Spend some time digesting the information in this and the previous chapter, to help you decide upon which model is right for the future of your business. You will likely have agreed with at least some of the pros and cons for each option. Remember that there will always be some sort of disadvantage as there is no perfect model. It may help you reach a decision if you weigh up which issues you can live with, and which you can't.

However, don't make your final decision before reading Chapter 10, as you will find some examples there of how to get around the obstacles that you may face in implementing your favoured option.

***If you're using our online Pricing Advice program, the interactive functionality in Module 2 will enable you to agree or disagree with each component on this list and build your personalised, consolidated list to enable you to clarify your thinking and assist you to make a decision.**

CHAPTER FIVE
SELECTIVE CLIENTELE

As previously mentioned, one of the most important findings that came from our Pricing Advice Research is that there is no single pricing model that will suit all types of clients, no 'one-size-fits-all' billing system. This is in fact quite logical. Just as every client is different, with varied advice needs, so too is every business owner. The financial and personal goals of each financial adviser are unique, so what suits one business may not suit another.

This fact is well illustrated in the research report. We detailed the actual business and pricing models of 15 different businesses who participated in the research and applied three hypothetical clients to each model:

1. A pre-retiree couple with a modest sum of assets
2. A retiree couple with a good sum of assets
3. A wealth creator couple with modest savings but surplus cashflow

Each of the 15 businesses quoted what they would charge each of the three clients, and Company 14 was a perfect example. They were the most expensive provider for sample client one, and yet one of the cheapest for sample client three. The same

pricing model applied to different client situations will have different outcomes for each client.

It is evident that if you're going to create a new pricing model, you need to be clear about the type of client you are servicing, otherwise you run the risk of creating a structure that is either too expensive, or generally unattractive to your target market.

You either create a pricing model to suit the clients that you have or you change your pricing model to attract the clients you want. Perhaps you've only ever sought retirees because your pricing model determined that they were the only clients who were attractive to you.

Whilst it is not always possible for a firm to be completely selective with its new clients, it is easier than some may think. I have lost count of the number of times I have worked with advisers who have been in a position where they receive referrals from a third party (or sometimes an in-house team) and they feel that they are not able to tell the referring parties who to source. In many cases, they discover that the referring party is keen to deliver referrals but does not know exactly who the adviser is looking for. In the absence of instruction or clarification they will send anyone who may possibly require some type of financial advice. When these advisers provide more specific descriptions of the type of referrals they seek, the referring parties—usually business owners themselves—understand the need to work with appropriate clients, and are happy to oblige.

Being particular about the type of client you work with is one of the crucial factors for success and will make the greatest contribution towards turning a good business into an exceptional one that enjoys significant profitability and has happy clients who receive quality advice.

When you start out in business, it is quite typical to want to take on anyone with a heartbeat—you are trying to build cashflow and you're prepared to take on anybody that you can make some money from; all business is good business. On a commission-based model, it was easier to provide advice at any cost because in most cases, the business had a trail book that provided cashflow, so it was not as important to ensure that every client was profitable.

In order to continue to build your business to scale in a world without commissions (especially if your trail book starts eroding), you are going to need to get selective with your clients. If you are desperate to get every client that walks through the door you are not making good long term decisions for your business.

If you take on any client at any cost, you will build yourself a problem. You will take on more and more clients who will become liabilities; they will either add to your legacy trail book of clients or worse, won't pay you enough for the number of times they call you. They prevent you from servicing your true clients, the ones who you really can deliver great value to and get great profits from.

An adviser summed it up perfectly for me just recently—he said: "The most empowering day of my business career was the day that I turned a client away. The day that I said: 'I'm sorry but we're not the firm for you.'"

That adviser could look into the future and see that whilst he may have been able to make some money out of that client right now, the time it would take to get them on board and service them in the long term would be time better spent dealing with more profitable clients, or seeking referral sources, or marketing for new clients. His ability to say no to an inappropriate client possibly meant that he missed out on a small sum of money initially, but it allowed him to invest his time in activities and clients that would generate far more over the longer term.

There is also something quite magical about finding your ideal niche market. When you are very clear about the type of client with whom you work best—and you build your service offering around them—you will discover more of them. The fact that your services are perfectly suited to your clients will mean that most of them will refer you to someone just like them. You will get to know what they read, how they think, and your marketing will become very targeted and effective. You will start working with clients who are true centres of influence within your market and, pretty soon, these clients will start seeking you out.

Do not misconstrue the concept of an ideal client as the need to focus on the high net worth space. Your niche may be truck drivers or nurses, engineers or school teachers, medical specialists or small business owners. Whichever market you choose, you will find that people have similar needs and similar concerns—and you will be able to become an expert on their issues.

I will also state at this juncture that being selective with your clients does not mean that you should turn away a client who really needs you. I believe that every adviser has an obligation to provide support services and give back to the community to people who desperately need financial advice and can't afford it. We'll explore this further in Chapter 7—Pro-Bono Advice. However, you need to be honest with yourself about when you are giving pro-bono advice, and when you are simply writing business at any cost.

If you work for an organisation that requires you to provide advice to a range of different clients, and you cannot be as selective as suggested here, all is not lost. It will simply mean that you should create more than one pricing model—or more accurately, the same pricing philosophy, with a variety of service offerings at different price points. Whilst in the past you may have segmented your ongoing service offering based on the range of income levels that your clients pay, you will now be able to work from the other angle, to create a service model that each client needs, and then price it accordingly.

Take a moment to really think about the clients you enjoy the most. It's no accident that there will be a particular group of people who you connect with really naturally and where your meetings and work seem to flow easily.

If you're working with the right type of client for your personality, you will find marketing, sales and retention of clients much easier, and things will tend to flow naturally without too much engineering. Clearly you need to be a realist here. If the people you enjoy dealing with are people who generally don't need advice—or don't value advice and won't pay for it regardless of how you price it—then they're not going to be your ideal clients.

You have the perfect opportunity right now to change your business model if you want to focus on a different style of client.

Often, it is only your pricing model that has prevented you from servicing your favourite type of client, because it wasn't structured to suit them.

Don't be too concerned if the description of your ideal client does not match your current typical client. If you've built your business on commissions (as most have) there will be many people on your books who are not clients—they are customers. They didn't buy advice from you; they bought a product, and they didn't care at the time how you were paid for providing them with that product. Indeed, if you were charging a fee at the time they joined you, they may not have joined you. Don't confuse a customer who purchases a product with a client who is seeking advice, who sees value in that advice, and is prepared to pay a fee for it.

Traditionally, most advisers do one of two things when they have an enquiry from a client who doesn't fit the criteria that they have established for their ideal or preferred client niche:

- They either refer the client elsewhere, telling them they aren't the right client for their firm, or

- More frequently, the adviser takes on the client in the hope that eventually they will become a good client, staying with the firm long enough to pay off the initial advice and moving into profit some time in the future. The reality is, however, that even with the best intentions, usually that client sits dormant on the books, is not contacted for reviews, does not get the support they need to build up their assets, and they end up becoming part of your legacy trail book.

Your new ideal client represents the future of your business.

If you haven't already, take the time now to define your ideal client. When defining these clients, think beyond their vital statistics. Yes, you want to consider their age, their stage in life and so on, but also think about the qualitative aspects of their personality. Do you enjoy working with clients who are delegators—happy to agree with your analysis and implement whatever you say—or do you prefer to work with someone who will question you, research your advice, and keep you on your toes by challenging you all the time?

Also consider where you source your clients from, as this will have a bearing on who they are. If your clients are referred by an accounting firm that services farmers, then naturally it's going to send farmers to you.

Don't worry if you can't nail just one ideal client. If you work in an accounting firm or an institution, or if you receive referrals from a variety of sources, you may need to service a broad range of client types.

That is the beauty of a segmented service offering—you can create services at various price points to suit a range of clients.

If you now find that your ideal client is a totally different type to those you currently service, you may need to revise your marketing strategy along with your service offering, to ensure that you are able to provide relevant advice for the needs of your ideal client.

Speaking from experience...

David Andrew, Managing Director, Capital Partners

Over our first ten years we have learnt many lessons about practice management, process, pricing and people; yet there is one lesson that stands out from all the others. That is, the focus on ideal client.

The temptation to be all things to all people is so alluring to any adviser because being 'busy' means that there will be money in the bank. Yet just being busy will not guarantee you the outcomes you are seeking.

Success is about being known for something. Being clear on what you do, and for whom, enables the consumer to understand your business, and guess what? Like attracts like.

Imagine how much better your business would be if you were 'busy' dealing exclusively with your favourite type of client, each of whom happily pays your fee and speaks highly of you to others.

A good advice business does not need 2,000 clients. In reality, what every adviser needs is 80–150 clients with a high degree of service delivery consistency across the client base.

That way, much of the work can be delegated to your team, and you will be free to add value to clients in ways you may not have even considered yet.

To give this idea life I have shared our firm's ideal client criteria. The people who fit these criteria really do get the most out of the relationship with us. Our ideal clients:

- ***Are interesting people:***
  Our clients are interesting people with things in life that are more important than money.

- ***They are financial delegators:***
  Our clients are financial delegators. They appreciate, and are willing to follow, the advice of an expert.

- ***They achieve their goals:***
  Our clients appreciate the clarity and peace of mind of knowing they have the greatest probability of achieving their goals.

- ***They enjoy simplicity:***
  Our clients enjoy the simplicity and freedom that comes from having all their financial issues under the watchful eye of a single trusted adviser.

- ***They value our work together:***
  Our clients are comfortable with our fee structure. We charge an agreed fee for agreed services, with a minimum fee of $12,500 per year.

- ***They focus on what's important:***
  Our clients value our relationship. By delegating, they can focus their valuable time and energy on those things in life that are most important to them.

- ***They can handle the truth:***
  Our clients want to hear the truth from us regarding their financial situation...no matter what.

No two advisers will have an identical Ideal Client Profile, and that's fine, there's plenty of room for a diverse range of service offers. Most importantly, when a client is paying you an annual fee, they need to be clear on the benefit to them. ”

CHAPTER SIX
CLIENT VALUE PROPOSITION

Once you've defined the type of client you're pricing for, you need to determine your value proposition for those clients. A Client Value Proposition (CVP) is a clear statement of the tangible experience a client gets from using your services. It is an effective tool that allows your business to clearly articulate what you do for your clients and can be used with great success when communicating with your prospective and existing clients, as well as your staff. The more specific your value proposition is, the better.

Unlike a Mission statement, which details the overall objectives and services of your business, your CVP is linked to the personal values of the key stakeholders in the business. It should define what value a client will receive from your services—what it is that your practice provides for a client that sets you apart from other advisory firms—and why a client should engage your services. Essentially, you're spelling out what's in it for them. It should go beyond a description of the services provided and really explain who you are and what your practice is about. A statement from the heart, so to speak, not just a motherhood statement that looks good on a brochure.

The most successful CVPs are those that are created with input from all key stakeholders in the business. This is not a marketing blurb that can be created by a wordsmith; it needs to be created via a process that involves all stakeholders owning, and truly believing in, the final result: a powerful CVP that is congruous with the firm as a whole.

By involving all staff in the creation of the CVP, there will be greater ownership of the outcome, which means integrating it into the culture of your firm will be a seamless exercise. When the CVP is finalised it will form the basis of all marketing documents, and all communication with clients. It should also be part of your induction procedure to get all new staff familiar with it, and ensure that they live the culture of your CVP.

Creating your CVP

We use the term Client Value Proposition rather than Unique Service Proposition (another favoured 'best practice' term in consulting circles) on purpose. Your CVP doesn't have to be unique. Don't get too hung up on defining why your service is different to all of your competitors. The fact is, there are a lot of clients out there needing advice, and plenty of work for the shrinking number of qualified and experienced financial advisers.

What is important is defining what's special about what you do. Your CVP should not be a bland statement about your business—"We provide holistic financial planning services to help our clients achieve their financial and lifestyle goals."—it needs to have some of your personality in it; that of your firm, that is.

If your clients love the fact that you share their enthusiasm for their holidays and retirement plans, build that in.

If you have a relaxed manner with your clients, say so. "Our clients like that we help them understand their money and even make it fun to plan for and achieve their goals."

Undertaking an exercise to create your CVP will do two things:

- It will help explain to prospective clients what you do and hopefully attract them to you, and
- It will also help you and your staff to truly understand and appreciate the value you bring to your clients.

Your clients are not going to buy you—or your fee—unless you do. Your confidence in your own value will influence theirs.

It is important to recognise the purpose of your CVP (in statement form), as well as its limitations. It will define your business, and the value that you can deliver to your clients, but it is purely to be used to attract clients to your firm.

Once your CVP has worked and the prospective client has come in for their first appointment with you, your value discussion must change. Your Client Value Proposition statement is, by its nature, generic. While it is specific to your firm, it is the same regardless of who the client is.

Once the client has started discussions with you, it is no longer enough to simply talk in terms of your generic value; you need to clarify your value in the eyes of that client. You should then communicate this back to them in your discussions and in your documentation, and you should also revisit and update it at each review.

In order to achieve this, you need to perform more than just a quantitative Fact Find with your new clients. Delve deeper into what is valuable to them; find out some more qualitative information than simply their account balances and a perfunctory summary of when they want to retire.

Ask questions such as:
“What is your experience with financial advice?”
“How do you want this relationship to work?”
“What are you seeking from an advice relationship?”
“The catalyst to come here was the fact that you’re retiring, can you describe to me what a successful retirement looks and feels like for you?”

Then include their answers in your SOA under ‘Objectives’, not simply: “You want to retire in two years on $50K pa.” Their objectives will come to life, eg “You want to enjoy time for travel and enjoy your grandchildren without worrying about what the markets are doing, or whether you can afford to go out for lunch.”

Record these qualitative objectives in your planning software so it will automatically insert into your advice documents and your Client Data summaries for use in reviews.

If you have not yet defined your Client Value Proposition with your team, or you feel that you need to revise it, set aside some time to do so. If you are not engaging Elixir Consulting further than reading this book, access the support provided by your licensee, or any practice development professional who can arrange a session with your team to create your CVP. Remember that the process of creating it will be just as important in engaging your team as the resulting statement itself.

Ultimately, your CVP should be in two forms:

- A summarised version that consists of one or two sentences that can be used where a concise statement is required (in letters, on your email signature, etc)
- A more detailed version that can be used where you have the opportunity to expand on your value (in SOAs, marketing material, etc).

Then live and breathe it. Check your service offering and ensure that your expertise, the strategies you recommend and the product suite you utilise are all adequately designed to deliver on your value proposition. Don't be telling your niche market of wealth creators that you'll help them build their wealth and fund the lifestyle they desire if you don't provide spending/cashflow advice and insurance solutions.

Speaking from experience...

Ian Davies, CFP CA Financial Planning Specialist, Managing Director, Wealthcorp Financial Advisers

"I firmly believe that one of the most important things that we have done in the development of our practice was, by far, the production of a Client Value Proposition.

For any adviser to be able to clearly articulate to a client what it is that he or she does for that client requires the adviser to understand implicitly what value the business delivers to that client. This goes far beyond simply collecting data or offering a product. It tells the client in a very succinct and accurate way, what it is that they can expect from their experience in dealing with the adviser and the adviser's business.

The value proposition represents the essence of what the business is about. It dictates how each adviser in the business deals with all current and prospective clients. It gives the adviser the confidence of knowing how to react to situations that arise or how to deal with clients generally.

Whilst every advice business is different and every advice business will have a different value proposition, each adviser within each business must believe in and be fully committed to the value proposition if that business is to become very successful.

The value proposition becomes a business culture. Every client must have

the same experience and hear the same message from every person in the business at every level.

To have a value proposition takes away the guess work. There is no need to constantly think about what it is that the business does or what the business offers. Every action, every decision, whether it be in relation to client affairs or the direction of the business, comes back to the value proposition.

Determining a business proposition requires considerable time and considerable effort. There is much soul searching, discussion and deliberation to be undertaken as the words are carefully crafted. Each word will mean something and it will have a purpose. In its entirety, the value proposition should say to each person in the business, this is who we are and this is what we do.

The process of determining the value proposition will allow each person to understand the business in a way that they never have before.

Taking someone else's value proposition and changing it to suit will never work because it is not a genuine part of the fabric of the business. ”

CHAPTER SEVEN
PRO-BONO ADVICE

We have discussed the need to be selective about the clients you deal with, by identifying your ideal client market and only working with those who are appropriate. However, you may choose to continue to provide advice to non-profitable clients when they are referred by—and especially if they are related to—your more valuable clients. If you run an asset-based fee model, you may find that these clients would be happy to think that their fees are subsidising the advice to their children, parents or siblings.

One of the great benefits of getting your pricing right and running a profitable business is that it allows you to provide true pro-bono advice. That is, assisting people who really cannot afford to pay you but are in desperate need of your help.

Many advisers choose to deliver pro-bono advice as they feel privileged to be in a profession that has given them so much opportunity, and they'd like to 'give back' to those who may have been less fortunate. I'm often told by such advisers that they feel they gain more than the client does—not financially of course, but in personal growth.

There are a variety of ways to source clients who need your help. You may mention in your newsletter that your firm takes on a certain number of pro-bono clients per year and invite clients to refer candidates to you. Alternatively, you could register your details and intentions with a charitable organisation. If you are a member of the FPA, you might register for its pro-bono advice scheme, which is well known throughout financial counselling services and provides a central area for those in need to look for help.

The only reason you should not deliver pro-bono advice is if you are doing it as a marketing exercise—to promote to your community what a good citizen you are. Gaining community respect may be a nice side-effect but the desire to give pro-bono advice should come from purely altruistic motives, and should be delivered with dignity and respect.

The decision to deliver pro-bono advice should not be a true business decision, but I can't help throwing in a business-based justification to encourage you in this area. Giving pro-bono advice can teach young planners a lot about advising as well as about humility—and it can show them firsthand what may happen to clients who do not or cannot seek good financial advice.

CHAPTER EIGHT
PRICING INSURANCE ADVICE

While insurance is traditionally a very difficult area to price, more and more firms are starting to implement a fee-based offer. There has been much debate around the appropriateness of advisers being paid commissions for implementing insurance advice, and while the legislative reforms have largely allowed them to remain, they have banned commission on certain types of personal insurance, such as group policies inside super, and individual policies within default funds (at the time of going to press).

There are some camps who feel the writing is on the wall, and that all insurance commissions will disappear over the coming years, and yet others believe this carve-out to be confirmation of the viability of insurance commissions. Regardless of what your crystal ball is telling you, the current situation creates complexity for firms who intend to continue to receive commissions, to the point that even specialist firms who advise purely on risk insurance will need to determine a pricing model so they can be paid when it is in the clients' best interests to hold their policies in a commission-free structure. The commission you receive for any top-up cover you implement will unlikely be sufficient to pay for all of the work required to advise and implement their

insurance portfolio. Those who write risk as part of a comprehensive financial plan will also need to ensure that they receive sufficient income to cover the additional work and complexity that insurance advice adds to their process.

Whilst they remain a legitimate source of income, many advisers do not believe commissions alone represent an adequate source of income for the often complex advice processes they complete for their clients. Opinions vary greatly on this topic. Some believe that clients who do not pay their adviser separately to their insurance premiums do not place enough value on their advice, and this reflects on their cooperation with the adviser to implement much-needed recommendations. Others seek a remuneration method that will pay them for their time to advise and assist clients who ultimately don't get cover enforced. Opponents of this thinking believe that the commissions earned from larger premiums subsidise the advice provided to the unfortunate few who don't get cover.

Before deciding how to be paid for your advice on insurance, it is helpful to examine precisely what an adviser does for a client when advising on their insurance. You:

- Help clients to confront and address the risks they face (i.e. 'selling the concept'—if not for your advice, they may have never covered their family).
- Determine the appropriate types and levels of cover and select the insurer for clients.
- Assist clients through the application and underwriting processes.
- Assist clients (or their families) if they need to make claims.

You have a number of options to choose from when selecting how you will be remunerated:

- Taking only the insurance commission and not charging an additional fee (and then you need to consider if you'll take the upfront option, or the hybrid or level).
- Charging a fee in addition to receiving the insurance commission.
- Determining a fee, taking the insurance commission, and rebating any of the commission that exceeds the pre-determined fee.
- Charging a fee and writing the policy with the commission rebated, resulting in a lower premium for the client.

Irrespective of what mechanism you choose to use to be paid for your insurance advice, the fact remains that it's important to get a handle on the minimum level of revenue you need to earn to advise and implement risk recommendations. When determining how to charge for insurance advice, follow the same process we reveal in this book, using the process and time you would take to advise your 'typical' client. Make sure that you

price and provide an ongoing service offering as well as your initial advice to implement the policies. Your ongoing services will likely include taking the client's administrative calls, chasing up outstanding premiums, and regularly reviewing their levels of cover and policy inclusions to ensure their insurances continue to meet their needs. There are added challenges to be aware of when pricing your insurance advice:

CHALLENGE ONE
It is difficult to assess how much work will be required to get a policy in place. Each client and each policy is likely to require a different level of attention from the adviser to move through to completion. It is hard to predict how long this will take or how much work is required until you complete the client's personal statement, by which stage you will likely have already agreed upon the fee you will charge. Even a seemingly healthy young person may have a medical condition, or make certain lifestyle choices that will result in extra work for the adviser. There are also some applications that require multiple followups, to get the reports from the Doctor, or even getting the client to book their blood tests/complete additional forms etc.
POTENTIAL SOLUTIONS
• You may mitigate this by setting your fees based on a slightly complex case, where you need to arrange underwriting requirements, and then choose to use the same fee for all clients, accepting the fact that those who move through more efficiently will subsidise those who require more attention. • You may choose to have your clients complete a pre-screening form that will uncover any of the typical issues that would cause additional time and effort to complete the application and/or likely cause their application to be declined. If any red flags arise, you can quote a larger fee, and explain the potential likelihood of a loading, exclusion or decline and allow the client to make the decision to proceed or not (prior to you completing too much work!) • You may choose to apply higher fees to clients in a certain age bracket. • You may attach a proviso on your quoted fee, such as including all assistance up to six weeks after lodging the application, but reserving the right to charge an additional fee if the underwriting process requires more assistance than usual. In this way, you encourage your client to act quickly to fulfil the underwriter's requirements. You can still opt not to charge an additional amount if the time delay does not result in extra work for you, but you may like to reserve the right if it turns out to be a particularly hands-on implementation.

CHALLENGE TWO
There will be times when you provide advice and support to a client who does not successfully get insured. There are many reasons why an application may not complete, and it can be difficult to foresee most of them, so all of the work involved in quoting, writing up an SOA, and chasing up underwriting can be in vain if the client doesn't get covered. In a commission model, the adviser would receive nothing for their time and effort in this situation; in a fee model, the adviser is paid by a client who perceives they have received no value. Many advisers don't feel comfortable about charging a client for their cost recovery, as the client has not received value. Often the application is declined due to a previously unknown medical condition. While the client can now seek treatment for it, being billed by the adviser may add insult to injury.
POTENTIAL SOLUTIONS
• Employing the pre-screening questionnaire as suggested in the previous challenge can go some way to reducing the incidence of these cases. Where a red flag is raised, you can empower the client to make the decision whether to proceed or not, knowing full well they may need to pay your fee for a fruitless exercise. • By making it clear to your clients that your fee will be payable regardless of the success of their application, you may reduce the number of clients who proceed on a half-hearted basis then pull out of the process before completing the application. • You may choose to charge a minimal engagement fee, then a success fee that is only payable upon successful insurance applications. • If you select the above option, or you decide to only enforce your fee for successful applications, you could apply a premium to every fee charged to an insurance client, to effectively subsidise the few policies that don't complete.

CHALLENGE THREE
Most insurance policies have commissions embedded into the premium, which clients would pay, regardless of whether they placed their policy through an adviser, or direct with the insurer (if that is possible). Advisers who wish to charge a fee in place of the commission have two options. They either receive the commission and then physically refund it to the client, or they write the policy with the commission rebated. If you choose to receive then refund the commission, and your licensee fees include a percentage split of your revenue you will need to ensure the licensee does not take their split on the insurance commission before passing it through to you (on its way back to the client). This option clearly adds an administrative burden that should be factored into the amount of fee that you charge. Some insurers allow advisers to write some policies with the commission rebated, but only on a similar basis as the level commission option, providing a premium reduction of (on average) 30%. There has been much conjecture as to whether the entire cost of the commission is deducted from the cost of the premium—some believe that the insurers do not pass on the full amount.
POTENTIAL SOLUTIONS
• If you write a policy with the commission rebated by the insurer, you are effectively securing a life-time premium reduction of about 30% for your client. It is important to highlight this to your client as a significant value-add and one that will far outweigh the cost of your fee provided they hold the policy beyond the first few years.

CHALLENGE FOUR
Insurers will claw back commission if a client cancels the policy within a set period. If you choose to receive commissions, or charge a fee and refund the commission to a client, you may find that you end up refunding all (or much) of the income you received for the work you completed.
POTENTIAL SOLUTIONS
• Regardless of whether you opt for commissions or fees (with commissions refunded), it is wise to make it clear to your client that should they cancel their policy within the clawback period, you will invoice them for the amount of your fee that is clawed back by the insurer. Whilst it is arguable if you would ever recover this invoice, the clarity may at least make clients think twice before implementing and then cancelling a policy in a short space of time. • By staying in touch with your clients you may find that you can counsel them with alternatives to cancelling their policies if times get tough, thus reducing the incidence of clawbacks. Clients usually cancel policies because of cashflow constraints, or they decide they no longer need the cover. If you are providing ongoing advice and support to them, you can assist them to make a considered decision, weigh up their alternatives and potentially keep their policies in force, while solving their budget issues in other ways.

CHALLENGE FIVE
While the previous challenges relate to the initial advice or engagement process for an insurance client, perhaps one of the most challenging aspects of providing insurance advice is when you have clients who claim on their policies. It's important that you assist your clients through this process, as most people are either highly emotional or very sick at claim time (often both), which reduces their ability to process information. Many a claim would not have been paid were it not for a vigilant adviser helping the client. The challenge is that there can be a significant amount of work involved to provide this support, and yet many advisers do not feel comfortable charging their clients a fee at their greatest time of need.
POTENTIAL SOLUTIONS
• You may choose to include in your ongoing fees, an amount that will provide for your time in the event that the client makes a claim during the life of the policy. You may offer this as an optional fee to the client, or you may apply it to all on the assumption that only a percentage of clients will ever claim, and you are apportioning the anticipated cost of your claims assistance across all of your clients. • You might pre-position the importance of your claims support during your engagement process, determine an amount for a claims management service, then add this amount to the sum insured (say, $10,000). In this way, the client is only paying a minimal increase in their premium to ensure that they will have additional funds included in their claim to pay your claims management fee. Of course this option will not work for income protection and will only be payable in the event of a successful claim. It's possible that you may do a lot of work to assist the client with their claim, only for it to be denied by the insurer, and yet clients may like the fact that your support will be provided on the basis of a success fee. • If you determine a method of payment where you will not charge the client a fee at the time of claim (either by taking commissions or one of the previous suggestions), I recommend that you put in place a Claims Assistance Guarantee. This should state that for the life of the policy, if the client needs to make a claim or is unsure if they have a claim, you will assist them through the process, and hopefully ease the emotional burden that can result from dealing with an insurance company in a time of grief or illness, and you will not invoice them for this help regardless of how long it takes to reach the conclusion of the claim. There is a sample template available on the Elixir Consulting website if you're not sure where to start with this.

CHALLENGE SIX
Where providing insurance advice as part of a comprehensive financial plan, many advisers will take the insurance commission, and then offset that against the fee they would have otherwise charged for the advice. There is a risk that they do not adequately account for the additional activities that are required to implement the insurance components of the plan (quoting, applications, underwriting etc).
POTENTIAL SOLUTIONS
• If you choose to offset your fees against commission received, make sure you assign at least some portion of the commission to cover the risk insurance component of your advice. By the time you complete your pricing model, you will know the minimum amount you need to charge to cover the time you spend to take a client from their initial enquiry through to implementation of their financial plan. For example, let's say you determine that a new client should be charged an engagement fee of $3,500, but the insurance you are writing as part of their plan will pay you $4,000 in commission if the application is successful. It may seem tempting to completely offset the engagement fee. After all, the sum received from the insurer is greater. However, to do so would be to assume that the extra work involved in implementing the insurance is less than $500 worth. You'd be taking a gamble that the underwriting process will be straightforward (a rarity), that the policy completes and that the client never needs to make a claim. There will be a threshold at which the commission represents profit, regardless of how complicated a claims process may be. This is the time to make a judgement call and perhaps offset some, or all, of the financial planning engagement fee if the insurance commission exceeds that threshold. This will be an amount that you must determine.

So what is the best solution to pricing risk advice? The answer is the same as that for pricing any other financial advice—there is no single solution that will suit every client and advice business in the country.

Yes, pricing insurance advice is challenging, but it certainly is possible. And for those doubting whether clients will pay separately for their insurance advice? The answer from our pricing research is clear—yes they absolutely will, provided that the value of that advice is articulated and delivered well.

Speaking from experience...

Anthony Warr, Director, WARR HUNT

We've successfully been charging fees and not receiving commissions for insurance advice since 2005. Initially, this was part of providing comprehensive financial and wealth management advice, and since 2010 we've been providing insurance-only advice on a fee-only basis.

Where did we start?

We looked at the information we had in our business and used the technology available to evaluate the cost of services to clients of different types. We now know what the services cost, so can then apply a profit margin, reward for value-add and business risk associated with larger or more complex cases.

We introduced a pre-underwriting questionnaire to try and identify any underwriting hurdles. If it looks like a vanilla application, we know what it costs our business to complete the job. If it looks complex, we consider what the job is worth, with our profit margin, and then what sort of value overlay we can apply for a client with a more complex situation.

We let our clients know that when we implement their insurance, they'll be saving at least 30% pa in premium due to commission removal. That's locked in for the life of their product.

For insurance only clients, they can take a 'no review' service or ideally a simple review service based on goals and financials for a fixed fee. Any change in cover and/or product will be priced separately. For claims, we charge at the time of handling their claim. Claims are rare relative to underwriting, statistically. Our view is we just need to cover costs, we don't need to make a profit at the time of managing a claim.

Everything is a learning experience. We use our best estimate to price each client, and then we look back at what jobs have cost us and learn from the experience.

Our process is focused on the client, providing leadership and keeping them accountable to protecting their most important goals. This underpins our advice and fee philosophy.

My advice to other advisers who are struggling with the concept of fees for insurance advice?

What needs to fundamentally change is the advisers mindset. I hear "If I do this on commission I would earn $10,000, so how do I invoice a client and get them to pay $10,000 for this job?". Rather than hanging onto something that was priced into a product years ago, consider the fact that we're providing professional services. They should be thinking "what is the job to be done and what is the value of that job?".

We are in a unique position to change. Good advice businesses have data, and if you're smart, spend a month or two, or even six months analysing how long it takes to deliver insurance advice to a variety of clients. Start while you're being paid by commission, keep doing what you've been doing... once you have enough evidence to evaluate what it costs to deliver the service, then price it.

Ultimately, you may end up with packages with some variable element. In some cases it may not be as much as commission, in other cases it may be more.

Don't underestimate the value of being paid independently of product and the trust that comes from that, especially when it comes time to have discussions about insurance needs/cost to protect clients' most important goals.

The future?

There is a major disruption arising in financial services and advice. The evidence is clear that demographic, technological and economic change will impact greatly on how we do business in the future.

Commission structures bear no resemblance to the cost and value of delivering professional advice and administrative services associated with the recommendation, implementation and review of insurance needs.

We believe that as a profession we need to set the price for advice ourselves.

CHAPTER NINE
UPFRONT VS ONGOING FEES

There are typically two times that clients are charged for work.

Most advisers charge a plan and/or implementation fee for their initial work and then an annual retainer for future work.

Most advisers state that their first meeting—an enquiry meeting—is free, or in our preferred language, it is conducted ‘at our cost’. This provides an opportunity for the client and adviser to see if they will be able to provide valuable advice, and to get a feel for whether they would like to work together.

If they agree that they are happy to work together, the client signs a letter of engagement, which documents the scope of services to be provided and the fees to be charged, and work begins.

Upfront

Advisers who charge an upfront fee are confident in their advice, and have no qualms about being paid for what they do.

There are some who choose not to charge an upfront fee, and their rationale usually includes one or more of the following points:

- Each client is worth more to the firm over the next five to ten years than they are right now so if I scare them away with an upfront fee, I'll lose that ongoing revenue.
- I'd rather charge little or nothing for the plan fee, so that I can win them over with my service/sales ability/advice, and then I'll charge an implementation fee, or take an entry fee when we invest the client.
- I've never charged an upfront fee and most of my business comes from referrals—they have an expectation that I won't charge a fee.

Regardless of what you decide with regard to the timing of your fee, there are a couple of reasons to charge for the work you do to engage a client.

The most obvious reason is to obtain at least some amount of cost recovery. Especially with the rigorous compliance requirements we must follow, there is a considerable amount of time and effort that goes into taking a new client from their first enquiry, through the process of getting to know them, fact finding, strategy development, and SOA preparation to signing the Authority to Proceed (ATP) and then implementing the plan.

A secondary reason, and perhaps even more important than obtaining cost recovery, is the psychological effect that an engagement fee has on the client. Human nature means that most clients instinctively align value with price. That is, if your advice is cheap, or free, how good can it be? No one seeks advice from any other profession (accounting, medical, legal etc) and expects it to be delivered for free, so what message are you sending if you offer to do so? In addition, most advisers notice that clients who pay a fee for the advice tend to be more engaged in the process, and take greater ownership of the outcomes. If a client has paid for the advice, they are more likely to act on that advice and implement it, rather than put it in the bottom drawer to gather dust.

With the inordinate level of media attention on "shady financial planners being paid huge commissions", there is a good chance that an adviser who doesn't charge for their initial advice could actually scare clients away, as they may suspect that there must be 'under the table' payments being made. Of course, this would not be possible with our rules of disclosure but perception is reality and many clients are not honest about the reasons why they choose not to engage after an initial enquiry.

One thing that many advisers wrestle with is how to find the 'sweet spot', the amount

to charge that is not so high as to scare clients away, but still enough to be profitable. This sweet spot has less to do with the length of time that an adviser takes to engage a client (how many meetings etc), and is more about the style of client that the firm works with, and perhaps most importantly, the confidence that an adviser has in charging for their advice, and their own conviction in the value that they can provide. Ultimately, you will get a feel for where your sweet spot lies over time. This Pricing Advice process will allow you to understand your cost recovery, and give you some assistance with determining when and how to pitch your fee, but you will get better at charging the right fee with practice.

Rather than charging an engagement fee, some advisers choose to start charging the client a retainer as soon as they engage them. That is, if the client chooses to go ahead after the introductory meeting(s), they start paying a monthly retainer from the following day, which covers them during their fact finding, due diligence and strategy development. These advisers will often then charge an activity fee, implementation fee, or project fee when they get to the point of documenting and implementing the SOA.

You know the client—at least you will by the time you create their financial plan—so if their cashflow is such that they can't pay you right now, but they really need your advice, you can arrange for them pay off your engagement fee. In this way, their advice fees will be higher for the first 12 months, but second year fees will drop to represent the ongoing advice fees only. The timing and presentation of upfront fees is critical. Many advisers will charge a small plan fee (to win the client) and then charge a larger implementation fee—or take upfront commission—when they implement the advice and lodge the funds, so they weight the pricing like this:

However, the amount of work required, and the value of the intellectual property that is in the advice which is documented in the SOA looks more like this:

The problem is, if you were to charge your fees in line with the work required, you might have difficulty obtaining clients, because they may place equal value on your advice and the implementation. Indeed, they probably don't think of them as two separate things at all.

There are several problems with the small plan fee/large implementation fee method:

It implies that the whole relationship is only important if the client has funds to invest with the adviser and it places greater value on implementation—filling out some forms and posting off some cheques. The magic lies in the advice that is contained in the SOA, yet the client can receive this for a small sum.

It further implies that the client is entitled to take the SOA and not implement it with the adviser. Whilst this could be beneficial to a client who can source low-cost DIY lodgement services online, it is disastrous for the business, as most of the effort and all of the intellectual property is tied up in the SOA and they have given it away at a loss.

There are some subtle but very important differences in our preferred method of charging upfront fees.

Your engagement fee should be quoted as a single fee which includes the strategy development, SOA, and implementation, but allow the client to pay in instalments. Be clear, however, that if they are engaging you, they are accepting the full fee.

At this point in your relationship, after only one or two meetings, the client should have a good feeling about you and be fairly confident in your abilities. But they haven't yet been able to really experience your brilliance or see what you will be able to do for them, and so they may hesitate to pay the full amount up front, and focus more on the cost than the value.

As their financial adviser, it is part of your role to ensure that all of their finances—including the payment of your fees—are handled in the most cost effective and tax effective manner, to enable more effective achievement of their financial goals. In reality, you won't know until after you create their financial plan whether they would be best paying you from their super fund, from cashflow, or from a bank account.

So in your engagement letter, the client is signing off on the full engagement fee but only paying you a deposit of 25% or 50% (or whatever you deem appropriate). The balance will be paid upon implementation or at another suitable time. You will advise the best place to source the funds and you will account for it in your cashflow modelling in their SOA. If they choose to withdraw from the engagement you will charge them a pro-rated amount to cover the work you have completed.

Following these steps will result in a good conversion rate of enquiries to clients (assuming quality enquiries), and minimal 'buyer's remorse' from the clients who engage you.

Undoubtedly, your success in gaining commitment from the clients you would like to work with will be influenced by the engagement process you take them through, the timing of your fee discussions and your communication and sales skills. We have found that many advisers enjoy an increased success rate when they can visually demonstrate the process they will undertake with their client. Elixir has a range of 'point of sale' tools designed specifically for this purpose, which you can access from our website. We will discuss these further in Chapters 16 and 17.

Ongoing

There are various different structures that can be used to charge for ongoing advice. The fees charged may be fixed amounts or a percentage of assets, but below are the methods for structuring the fee:

- Retainer—The most common method is to provide a range of services for an all-inclusive fee. That is, the client receives X number of reviews plus phone access to their adviser and whatever else is on their service plan. If they require a change to their financial plan or wish to come in for an extra meeting, they are not charged anything more to do so.
- Retainer plus activity—Alternatively, some advisers use the retainer plus activity-based fee, where the client receives a documented service offering but if there is a peak in activity, such as moving from accumulation into retirement, inheriting some money, or selling a property and investing the proceeds etc, then they are charged an additional fee upon creation of the new SOA. This method is often used for the lower end of the client segments. For example, a Platinum or Diamond client may be paying such a significant fee that the adviser can afford to include additional work, whereas the lower-priced Silver or Bronze packages have very little in the way of profit built in.
- Collection—Some advisers charge their clients each year in advance (and may offer a small discount for doing so), but the most common collection method is for the ongoing fee to be paid in monthly instalments, by direct debit from a bank account or admin platform.
- Activity only—A final option is to charge activity fees only. This option is only viable if offered to the clients who are currently sitting in your legacy trail book—you are receiving a small sum from them, certainly not enough to warrant a full review service, but you stay in touch with them and offer them advice at a fee if and when they need it. The obvious intention here is to keep them connected to you. If their circumstances change so they become appropriate clients, you would move them onto an ongoing model when you have completed the advice required. As explained in the arguments against time-based billing in Chapter Two, this fee structure is certainly not appropriate for true clients—those who have an ongoing need for your advice.

CHAPTER TEN
FOUR FEE MODELS THAT WORK

Despite all of the variables, we can summarise your potential fee structures into just four options.

- Flat fees—A flat fee is charged for initial and ongoing advice.
- Asset-based fees—A fee is applied as a percentage of the assets invested, both for initial and ongoing fees.
- Hybrid #1—Flat dollar initial fee plus asset-based ongoing fee.
- Hybrid #2—Flat fee for initial and ongoing, plus an asset-based fee if the adviser also manages investments for the client.

Other services

You need to address how you will handle other services that still pay commissions, such as risk insurance, finance broking etc.

You may choose to receive the commissions, and these may go some way to adding to the value overlay that we will discuss later, or you may choose to rebate them and replace them with a fee.

We discussed insurance commissions in more detail in Chapter 8 and you should form a view on the best alternative for your firm to use.

Let's explore these examples in more detail.

FLAT FEE

A flat fee is charged to cover initial and ongoing advice.

Note that if you choose to charge flat fees, you should not have one fixed fee that is charged to every client. A better alternative is to use a table or matrix that allows you to start with a minimum fee which you increase based upon the complexity of the client and the services they require.

It is imperative that this matrix is used to recalculate the client's fees at each annual review, and in the event of a major change to a client's circumstances.

In Chapters 11 and 12 we will discuss the creation of your matrix (calculator) that you can use to determine the appropriate fee for each client. Another choice you will have to make is whether to use this calculator in front of your clients and share with them what affects the fee you will charge, or to use it purely as an internal document, and only quote the total fee to the client.

Advisers who prefer to keep this as a purely internal document do so as they fear that their clients may cherry-pick the services they require. They also believe clients will suspect particular courses of action are being recommended because they will increase the fees charged.

Those who use it openly state that their clients feel that the fees make sense, that there is some science behind them, and they rarely object if their fees need to increase, as they understand the reasons why.

One of the main disadvantages of the flat fee is that it doesn't automatically recognise the level of assets invested in the way that an asset-based fee does. Whilst we know that it doesn't take twice as much work to look after someone with twice as much money, the fact is, you are taking on more risk as you manage larger portfolios.

You only have to look at the cases going through the External Dispute Resolution services to see that if a complaint from a client is upheld against you, it will cost you more if you invested $200K than if you invested $100K for them. If you charge a flat

fee that takes no notice of the money that you are investing, you are not necessarily being compensated for the risk that you are taking on as an adviser.

This is easily accounted for by including a line item in your calculator, to add a premium based on the level of assets managed. In the same way that you might add $500 or $5,000 for advising on an SMSF (disregard the numbers used here—we will help you create your own figures in Chapter 13), you might add a premium for every 'band' of FUM managed—e.g. $100 per year for every $50,000 managed.

It is actually much easier to create the right flat fee for each client than it sounds—we will discuss this further in Chapter 13, and provide you with some assistance to create the right tools to enable you to effectively charge flat fees.

ASSET-BASED FEES

A fee is applied as a percentage of the assets invested.

There may be different percentages applied for upfront vs ongoing, (e.g. 2% upfront then 1% ongoing).

The ongoing fee may remain the same regardless of asset value, or it may taper down for higher levels of FUM (e.g. 1% for the first $500k, 0.75% for $500K – $1M, 0.5% thereafter).

HYBRID #1

Flat dollar engagement fee plus asset-based ongoing fee.

This is certainly the most common method used by advisers wanting to charge asset-based fees. Usually, the overarching reason that advisers choose to take an asset-based fee is so that they can receive the upside growth in fees over time without having to manually readjust the figures on a regular basis. They feel that the risk of a falling market does not outweigh the benefits/potential returns over the long-term.

These benefits arise over time, as the value of a client portfolio is constantly in flux (usually valued daily). The upfront fee is calculated on a fixed asset value at one single point in time—the day that the funds are lodged. Therefore there is no benefit to applying a percentage-based fee because the fee will be what it will be.

For example, 1% initial fee on $100K invested will always be $1,000 as an upfront, but the adviser is hoping that they will grow the $100K, so the 1% ongoing fee in the second year will be $1,100 if the investment grows to $110,000.

HYBRID # 2

Flat fee for both upfront and ongoing, plus an asset-based fee if the adviser also manages investments for the client.

This model attempts to separate out strategic advice and counselling from investment management, and allows the adviser to provide advice to any client, regardless of whether they have built assets yet, or where their assets are placed. They can also be compensated for the work and the risk involved if they manage investments on behalf of the client.

In this model the adviser would state that the fee to engage them is $X per year, which covers reviews, access to the adviser, and all of the things listed in their service agreement. If the client would also like the adviser to manage their investments, they can do so—for an additional investment advice fee of Y%. This might be 0.1% or 0.3%, depending on how they have set their flat fee.

The additional fee will capture the upside of the market and suffer the downside, but it won't have such a dramatic effect on your revenue as a pure asset-based fee. It will also increase your income as you invest more money and take on greater risk for each client in your business.

This model demands the ability to administer both options, which can be restricted by the product providers you use. If your wrap account only allows an either/or charging method, you may be able to charge the asset-based fee via the wrap account, and set up a direct debit from their bank account to cover the set dollar fee.

Having considered the advantages and disadvantages of flat vs asset-based fees, and now having looked at the options for structures, you should be in a position to select what you would prefer to use for your new fee model.

TIPS AND TRAPS—Asset-based fees

If you have selected an asset-based fee, make sure that you set either a minimum fee, or a minimum level of assets that your clients must have. Otherwise you run the risk of not charging enough either initially, or later if the client withdraws funds but continues to require the same service level.

We recommend that you taper down the fee as assets increase, otherwise you risk potential clients thinking that you are taking the 'upside' far in excess of appropriate profit and risk premium. Clients with significant sums to invest tend to be savvy in these matters, and whilst they are prepared to pay for quality, they are likely to expect

to have some 'bulk buying' power. The threshold to start tapering may be $500K, $750K or $1million—whatever asset level you deem to be appropriate.

TIPS AND TRAPS—Flat Fees:

If possible, set up your fee so that it automatically indexes each year by a fixed amount—CPI, or preferably AWOTE (Average Weekly Ordinary Times Earnings). Whilst you may require your clients to sign off on your fees each year at review, you should explain from the outset that they will keep pace with inflation.

Do not simply apply the same fixed fee for each client. Either charge different amounts for different service packages or, preferably, use a matrix so that you can charge depending on the complexity of the client's affairs. We will assist you to build your own matrix in Chapters 12 and 13.

Whether it is indexed or not, you should also review the fee every year with your clients and adjust it depending on what has changed in the value of assets you manage, and the complexity of their affairs.

Speaking from experience...

Patrick Canion, CFP®, MAppFin, CEO, ipac Western Australia

Our fee structure is based around an initial fee to prepare and implement strategic advice, and an annual agreed dollar fee to provide advice through our 'Private Client Service'. The annual fee varies primarily in regards to the amount of one-on-one contact time we have with a client, and there is a minimum annual fee.

We changed our fee structure over 10 years ago so that new clients paid a fixed dollar amount to establish their portfolio, regardless of how much they had to invest or where it was invested. However, it was only a few years ago that we changed our ongoing service fees from being a percentage of their funds under management to being a fixed annual fee, for a pre-agreed level of service. We found this change both challenging yet liberating, and it opened up new markets and allowed us to enjoy a much deeper advice relationship with our clients.

Challenging, because it forced us to clearly understand and be able to explain exactly what our value proposition really is. Every adviser understands that much of the value we add is intangible, and having an explicit fee rather than dialing in a percentage makes it even more important to be able to quantify that and relate it back to a client's felt needs.

There is something psychologically different to a client paying you out of their bank account as opposed to a deduction from (say) a superannuation fund. It 'hurts' just that little bit more, and clients want to see that they are getting value for money. In that sense, for each dollar of revenue we have had to provide more value than before. This has meant ceaseless improvement in our quality through increased education, better office facilities, more services.

And, it has been liberating as it allowed us to position our firm to advise our clients on ALL their financial needs, not just those that we could easily take a fee from the product. We moved from being a person's managed funds sales-person to being their personal chief financial officer. Being able to tell someone that you have no remunerative bias in your advice is a very powerful statement, because it places you on their side of the table. It means that you can spend time with them on areas that traditionally were avoided because there wasn't a link between the advice and a product.

Our fees can be found in our FSG, and we deliberately quote an indicative amount as early as we can in our first meeting with a client. This is because they usually don't have any idea what the costs involved with advice really are. Often, they can be surprised at the cost. This is good though, as we can then spend the rest of our meeting explaining what we do for their money, which allows them to make their own assessment as to whether this is value for them or not. ”

CHAPTER ELEVEN
CALCULATE YOUR CHARGE-OUT RATE

Regardless of whether you choose a flat fee or an asset-based fee model, it is vital to understand the cost of delivering your services. Even though you will likely not use time-based billing (read Chapter 2 again if you're still contemplating this!) you need to start by getting an understanding of what it costs you to deliver your advice.

Our research showed that the charge-out rates of financial advisers varied dramatically—and so it should. The costs of rent, staff and every other overhead will differ from one business to the next. Rather than attempting to select an hourly rate based on what you've heard is 'about right', you should drill down into the actual costs of running *your* business.*

There are a couple of different ways to calculate your charge-out rate, and I'll describe one here. A common mistake is to simply consider the salaries of the staff completing

*Our online Pricing Advice™ program includes calculators to undertake this process, and allows subscribers the ability to stress-test their pricing model in a variety of different situations, such as moving premises, adding or removing staff etc. It also includes video and audio files to further explain various concepts. Visit www.pricingadvice.com.au

the work but it is important that you include the overheads to run the business, including the employment costs of non-chargeable staff (book-keeper, receptionist, IT manager, etc) *and include a profit margin.*

To determine your charge-out rate, start by separating your chargeable staff costs from your 'passive overheads'.

Chargeable staff would be any of your team who undertake tasks for individual clients—advisers, para-planners, client service/admin staff. You may determine that handling mail and greeting clients are better to be evenly distributed across the client base, so someone who fills a pure receptionist role would be classed as non-chargeable, and therefore included in passive overheads.

When calculating the employment costs of your chargeable staff, include *all* of their direct costs—wages, commissions, bonuses, leave entitlements, salary sacrifice payments, superannuation, etc.

You can do this using the previous year's profit and loss statement and allowing for any significant changes you foresee in the coming year—how your PI premium is looking, for example. Also, look out for expenses that are listed as cost of sales if these are likely to be repeated in future.

The calculation looks like this:

Total expenses +/- significant changes + cost of sales
– total chargeable staff employment costs = subtotal passive overheads

Next, add the cost of your 'wish list'—those things you want to do if only you could find time or afford them. Perhaps you tightened your belt last year, or perhaps there are things you've always wanted to do. Now is the time to plan for them.

These might include items such as:

- Conference costs for your staff.
- Education costs for you and your staff.
- A business coach to help you achieve greater outcomes for the business.
- Flat screen or Smartboard in your board room.
- Video equipment to record client and marketing communications.

Whilst some of these may be one-off items, add an amount that would be an appropriate annual figure so that you can regularly upgrade your tools.

You should also add an amount for inflation, and an amount for your desired profit margin.

When considering what profit margin to build in, you need to incorporate something to compensate you for the risk you take in providing financial advice. The bottom line is, if you get it wrong, you can be sued.

You will find there's the ability to boost this amount for volume in Chapter 14, when we discuss your ongoing fee calculator (i.e. to increase your compensation for larger sums of money per client), but for now, incorporate a base level. You should be aiming for a profit margin of at least 35%–40%.

{(Subtotal passive overheads + wish list) x inflation} x profit margin
= total passive overheads

Next, separate out your chargeable staff costs among advisers, para-planners and admin support. By doing this, you will be able to determine an appropriate charge-out rate for the three different functions within your business, assuming you have people who undertake the three different functions. If you outsource your para-planning, you should include these fixed costs when you calculate your minimum engagement fee (Chapter 12).

Use one figure that totals all advisers, another for para-planners, and a third for admin support staff.

If you would like to give your staff pay rises next year, allow for this in your total figures—and don't forget to add your profit margin:

(Total adviser employment costs + pay rise) x profit margin
= subtotal adviser overheads

(Total para-planner employment costs + pay rise) x profit margin
= subtotal para-planner overheads

(Total admin employment costs + pay rise) x profit margin
= subtotal admin overheads

Next, you need to determine the number of chargeable hours in your business. If you run timesheets you will have an accurate picture of this. However, most financial planning businesses don't, and shouldn't in my view.

Our aim is to determine a *reasonably* accurate charge-out rate but considering we will use this as the basis of your fee model—not the entirety—it is not absolutely critical that you get this correct down to every six-minute block.

To calculate this, determine the number of weeks worked by each group. Typically, you should allow for the loss of eight weeks in a year—four weeks holiday, two weeks public holidays, one week sick leave, one week for conferences/PD days. Note that this is not general ongoing reading and CPD—you can pick those up in non-chargeable time. If you have staff who take additional holiday leave in their employment package, or if your advisers spend more than one week out of the office on conferences and training courses, allow for this here.

Next, estimate the number of chargeable hours that each team works in the week. You should think realistically here. Allow time for coffee/bathroom breaks, checking personal emails, chatting to other staff members, weekly team meetings etc.

For admin staff, include reception duties, checking PO box etc in this non-chargeable time. For para-planners, omit time spent updating planning software, researching strategies, keeping abreast of legislative changes etc. For advisers, omit travel time if they travel to appointments, reading time for industry publications/product research, time spent marketing and building centres of influence, etc.

While we would argue that all of these things help make up a good adviser (except perhaps travelling to see clients), it is too difficult to allocate time for these per client job, so by omitting them here, they will effectively be accounted for in the final hourly charge-out rate.

According to a recent Gallup poll, the average employee spends approximately 75 minutes a day using company-provided computers for non-business activities. Are your staff on Facebook?

Advisers – Number of weeks worked x chargeable hours per week
= chargeable adviser hours

Para-planners – Number of weeks worked x chargeable hours per week
= chargeable para-planner hours

Admin support staff – Number of weeks worked x chargeable hours per week
= chargeable admin hours

Next, determine the components that will make up your final charge-out rates.

Start by obtaining the total number of chargeable hours in your practice:

Chargeable adviser hours + chargeable para-planner hours + chargeable admin support hours = Total chargeable hours

Now determine the component for passive overheads:

Total passive overheads / total chargeable hours = passive overheads per chargeable hour

In this example, we will equally distribute the passive overheads between each group, but if you want to be pedantic, you could weight them in accordance with the value of the work that they do. We allocate them evenly as the passive overheads tend to stay relatively constant, regardless of the ratio of advisers to support staff.

Determine the variable component for each group:

Total adviser overheads / total chargeable adviser hours = adviser staff cost per adviser billable hour

Total para-planner overheads / total chargeable para-planner hours = para-planner staff cost per para-planner billable hour

Total admin overheads / total chargeable admin hours = admin staff cost per admin billable hour

Your final step in the process is to total the passive overhead rate with each of the staff rates to determine your charge-out rate:

Adviser charge-out rate = passive overheads per chargeable hour + adviser staff cost per adviser billable hour

Para-planner charge-out rate = passive overheads per chargeable hour + para-planner staff cost per para-planner billable hour

Admin support charge-out rate = passive overheads per chargeable hour + admin staff cost per admin billable hour

These charge-out rates should be sufficient to cover the entire overheads of the business—both the passive overheads and the staff costs which are variable dependent upon role and experience.

If you feel that these hourly rates are too high or too low, go back and check some of your inputs. Pay particular attention to your profit margin, your wish list and the non-chargeable time for your staff.

If you have input the correct figures, then these hourly rates really are the very minimum that you should be recovering on your client work.

Our research showed that the charge-out rates used to calculate fee models around Australia in 2012 ranged from $288 to $600 per hour for adviser time, $166 to $600 for Para-planner time and $104 to $400 for support staff time.

This means that if all of your chargeable staff are working at what you have calculated to be their capacity, and are charged out at these rates, you will achieve your desired profits.

The problem is that in reality you can't control the exact number of chargeable hours that your staff work—not only due to the peaks and troughs of workflow, but also because you may simply not have enough clients to keep them at full capacity. When they get to capacity, you need to employ a new team member, and then everyone is working below capacity again until there are enough clients to fill that person's day, at which point you again need more staff.

This is a balancing act that even the most seasoned bean-counter will struggle to get right, and is another argument not to rely simply on charging by the hour.

Remember, do not stop here and simply bill out your client work in arrears, based on the hourly rates you have calculated. It is essential that you do this exercise so that you gain a thorough understanding of the minimum amounts that your staff should be generating.

We will now use this information to help you arrive at a model that will increase the likelihood of generating the profits you seek, while keeping your clients happy.

What we have not done as yet, is build in a value overlay. You may choose to apply a premium to the charge-out rate if your senior advisers are working on particularly complex or value-adding issues, such as Self Managed Super Funds, complex estate

distribution management etc. Arguably, this work is more complex and should be more highly valued by the client (and achieve greater outcomes for them) than say, simple Super consolidation advice. Don't spend time on this just yet—we will cover this point when we get to Chapter 14—Adding A Value Overlay.

CHAPTER TWELVE
DETERMINING YOUR INITIAL ADVICE FEES

You can now determine the upfront fees you will charge for your advice.

Next, you need to determine the length of time it takes you to service your typical client. You might wonder why you are doing this, when we have already convinced you not to charge time-based fees. The reason is simple, yet incredibly important.

Many advisers find that they should be charging more than they have been for some parts of their advice, but find it difficult at first to do so. Our research showed that advisers who went through a similar process in creating their fee model had a better understanding of what it cost them to deliver their advice. They then found it much easier to charge appropriately, as they had a basis on which to justify their fees—more to themselves than anyone else.

We will spend some time discussing value-based fees later; however, you need to have a base from which to start. Without this process you will simply be guessing at what you need to charge in order to at least cover your costs, and you may find that you get it wrong more often than you'd care to.

To do this, you need to list the typical processes that you undertake with each new client.

Some clients are simple and there will be a standard process and a typical amount of time that you will spend to bring these clients to your firm. Complete this exercise with these clients in mind.

Step one will establish your minimum base fee to bring on a client, while step two will help you build a calculator to add to this base price where you have a client with more complex needs.

When estimating the amount of time it takes to complete each task in the business, timesheets are a great help but don't worry too much if you don't use them.

If you have neither the patience nor resources to track timesheets, take a stab at the average time spent at each stage. Please get your staff to assist you with this—they will have a much more realistic view of the time each task requires. If you simply get your staff to document the time it takes them to do each task they work on over the next month, you're likely to be surprised by the time some tasks take.

Alternatively, you could look at the last three clients you worked on (or the next three) and examine with your staff the time needed to complete each client service task.

Naturally each client will be different—some will take more, others less time to complete each task—but if you have structured your procedures well, it will be a more educated guess than if you use a different method each time you work on something.

How long has it been since you really thought about your advice process? Is it structured so that your clients will be convinced that they are receiving value for the fees they are paying? Are you able to deliver the best advice possible?

If you do not employ a standard process to engage new clients with your firm, I recommend that you get serious about this if you want your business to grow. Whilst sales and communication styles will vary between advisers, it is important to implement a consistent process to ensure that support tasks can be carried out by the appropriate staff, and that you maximise the success of every potential client you encounter.

Now that you will be providing advice on a fee basis, you will need to demonstrate value to your clients from their very first communication with you. If you don't have a

consistent process, or if you feel your process could do with some improvement, this is the perfect opportunity to restructure your standard procedure for inducting new clients to the practice.

If you feel you would benefit from external assistance, talk to the PDM at your licensee, or contact Elixir Consulting to speak with one of our coaches. Investing time and effort in this area can increase your profitability as much as getting your fee model right. We will discuss this further in Chapters 16 and 17.

Step One—Minimum Base Fee

List each step in your new client process, from their initial enquiry all the way through until implementation is complete. Then estimate the length of time taken to complete each task, segregating tasks depending on whether they are carried out by advisers, para-planners or support staff. Ensure you include the time spent preparing for each step, as well as completing file notes after the event.

PRICING Advice

CREATING THE RIGHT FEE MODEL FOR YOUR ADVICE BUSINESS

First Meeting.
Account for time spent confirming the meeting, preparing for it, conducting the meeting, then file notes and typical follow up after the meeting, including sending off (and following up) authorities to institutions for existing holdings.

ADVISER	PARAPLANNER	ADMIN SUPPORT	FIXED COSTS
			$

Most advisers will conduct First Meetings with prospective clients for free, as an opportunity for both the client and adviser to determine whether they wish to work together. In many cases, should the client subsequently engage, then they cover the time taken in this meeting in the Engagement Fee charged. First client meetings that do not proceed can become a significant cost to the business especially if advisers do not adequately 'train' their COI's in who to refer, and if they choose to meet with anyone who enquires without first 'screening' them when they call.

Set up new client file.
Account for the time taken to set up the new file (hard and/or soft copy) as well as enter client data from the Fact-Find into your planning software.

ADVISER	PARAPLANNER	ADMIN SUPPORT	FIXED COSTS
			$

Strategy Planning process.
Account for the time taken to review the Fact Find and commence formulating the plan including financial modelling if you do any.

ADVISER	PARAPLANNER	ADMIN SUPPORT	FIXED COSTS
			$

BACK NEXT CLOSE

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EVOLVING THE BUSINESS OF ADVICE

Note that most advisers will conduct first meetings with prospective clients for free, as an opportunity for the client and adviser alike to determine whether they wish to work together. In many cases, should the client subsequently engage, they then cover the time taken in this meeting in the engagement fee charged.

First client meetings that do not proceed can become a significant cost to the business, especially if advisers do not adequately ‘train’ their Centres of Influence in who to refer, and if they choose to meet with anyone who enquires, without first screening them.

Some advisers choose to charge for this meeting. Their theory is that their time is valuable and that by charging immediately they weed out the ‘tyre kickers’ so most meetings with prospective clients will result in that client choosing to engage them. They also state that most first meetings result in their providing some sort of advice to clients, even if that is only general advice, so it is appropriate to charge at least for the adviser’s time.

Tally the number of adviser, para-planner and support staff hours required to bring on a new client and multiply these hours by your respective charge-out rates. Include any fixed costs (such as outsourced paraplanning), *exclusive of GST.*

This figure is the minimum fee you should charge to bring each ‘standard’ new client to the business. (This figure will be exclusive of GST)

If this fee is considerably more than you expected, even before we account for additional levels of complexity in your clients’ affairs, don’t panic just yet. We will address this issue in Chapter 15. It is important for you to continue through the rest of this process to truly understand your cost to serve, before making some informed decisions about how you will implement your new fee structure.

You should now repeat the exercise, considering a client for whom you will provide more simple “Limited Scope” advice, in order to determine the minimum fee you should charge for ‘scaled’ or single transactional advice. Whilst you may be focused on attracting your ideal client who seeks a comprehensive, long-term advice relationship, you might choose to provide transactional advice on a profitable basis. (Particularly if that client is likely to return to you on a frequent basis.)

Step Two—New Client Complexity

Now that you have accounted for the work that you would complete for a client with simple needs, you need to consider the additional work that may be needed, depending on the complexity of their affairs.

What might affect the amount charged to a client on an upfront basis? There is a range of possible issues that may affect your price, including:

- **Trusts**
  If a client has family trusts, trading trusts etc in place, it can be very difficult and time-consuming to get a thorough understanding of the money flows and actual worth of the client.

- **SMSF—existing**
  If a client has an existing SMSF there may be additional work required to get a thorough understanding of the assets and history of the fund, and also to prepare and present advice on how to manage the fund. Depending on the strategies you're recommending you may also require a review of the Trust Deed.

- **SMSF—new**
  If you are recommending that the client establish an SMSF, you may require more time to educate them on their trustee responsibilities, as well as incur additional costs to establish the fund.

- **Additional support**
  Some clients will require additional time on the telephone and/or in person in order to be comfortable with your advice. Whilst extra complexity in terms of strategies will often require more time to explain, you might want to allow for those 'high maintenance' clients who will require more of your personal attention than most.

- **Direct equities**
  If the client has a sizeable portfolio of direct equities, it may require additional time and effort to induct them into your firm. Do you do further research on their portfolio? Do you collate and enter their CGT history into your software?

- **Self employed**
  Clients who are self-employed may require additional work to understand the income flows and the ownership structure of their affairs. They may also require additional due diligence in assessing their succession plans, buy/sell agreements etc.

- **Redundancy?**
  If a client is seeking your services to assist with a redundancy, you may require further investigations into both the offer and their employer.

- **Employee share holdings**
  If your client has significant employee share or options holdings, or an executive equity participation program, you may need to take more time investigating the structure and history of these entitlements, in order to formulate your advice.

- **Geographical location**
  You may vary charges for clients who live a long way from your office. If you travel to see them, add a premium; if you don't, you may choose to subtract an amount if they visit your office less frequently.

- **Estate planning**
  If your new client process includes additional work for estate planning, such as arranging and/or attending solicitor meetings, you'll need to add this where applicable.

- **International retirement savings**
  If you provide advice on rolling over UK pensions (or retirement savings from any other country), there will be additional work over a standard client.

- **Finance**
  If you provide advice on obtaining finance, and you choose to charge a fee for this advice, add in the additional time and costs here. *Many advisers prefer to receive commission or a referral fee from the lender or broker in addition to or instead of charging a fee. However, some may charge for complex structural advice regardless of who implements the lending.*

- **Aged Care**
  A client requiring advice on entering aged care will likely require additional research and time over and above a standard client.

- **Multiple Investments**
  If you need to get information from seven different super funds before formulating your advice, and then need to arrange six rollovers, this will take your admin staff a lot more time in the discovery and implementation phases.

- **Insurance**
  If you are recommending and implementing insurance in your financial plan and choose to rebate the commission and charge a fee, you'll need to add to your base fee.

Once you determine the additional layers of complexity that may add to the engagement fee for clients in your firm, create an engagement fee calculator that will incorporate all the costs that are specific to your firm. You will be able to use this with each new client, to determine the appropriate fee to charge. Most advisers prefer to use their schedule 'behind the scenes' and only quote the total fee to the client, although some advisers choose to use it with a client as they feel this justifies the additional fees required for more complex advice.

The following is an example of the Engagement Fee Schedule that is provided in the Pricing Advice online program.

PRICING Advice

CREATING THE RIGHT FEE MODEL FOR YOUR FINANCIAL PLANNING BUSINESS

Module 6 Determine your initial advice fees

PURE GENIUS
FINANCIAL PLANNING

ENGAGEMENT FEE SCHEDULE

This schedule lists the upfront fees to be charged to clients of PURE GENIUS FINANCIAL PLANNING

This is an *INTERNAL* document only and is to be used in conjunction with the standard FSG and Client Engagement Letter applicable to each client.

COMPREHENSIVE ADVICE:

For Comprehensive advice, the base fee will be charged, unless there are complex issues, in which case, a premium will be added as listed. The fees listed here are inclusive of GST.

BASE FEE:	[illegible]
Add additional amounts for complexity:	
PER TRUST	[illegible]
SMSF – EXISTING	[illegible]
SMSF – NEW	[illegible]
ADDITIONAL SUPPORT	[illegible]
DIRECT EQUITIES	[illegible]
SELF-EMPLOYED	[illegible]
REDUNDANCY	[illegible]
EMPLOYEE SHARE HOLDINGS	[illegible]
GEOGRAPHICAL LOCATION	[illegible]
ESTATE PLANNING	[illegible]
INSURANCE	[illegible]
FINANCE	[illegible]
INTERNATIONAL RETIREMENT SAVINGS	[illegible]
AGED CARE	[illegible]
MULTIPLE INVESTMENTS	[illegible]

LIMITED SCOPE ADVICE:

Minimum Fee: [illegible] **This figure includes GST*

You may choose to add a value overlay to these fees, dependant upon each individual client.

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CHAPTER THIRTEEN
ONGOING FEES

The next step in your process is to cost out your ongoing fees.

In order to calculate the proper fees to charge, you need to address not only the services that are provided—review meetings, phone calls etc—but also the complexity that the client has in their financial affairs. We will tackle this below, using a three-step process.

You will be able to create an ongoing fee schedule for your business, similar to your engagement fee schedule, which will list the minimum fees required for each of your service levels along with variable fees that you may add, depending on the services or products that each client uses. You will refer to this schedule when determining the ongoing fee to charge each client.

Just as you did when pricing your upfront fees, you should start by determining the approximate average time it takes you to deliver your ongoing services, based upon your segmented service offerings.

Even if you have elected to charge asset-based fees for your ongoing services, it is important to get an understanding of what it costs you to deliver these services. After completing this exercise, we will cover how to use this information when creating your asset-based model.

You will need to have your segmented ongoing service offering to hand. If your business has not yet created a segmented ongoing service offering you'll likely need more assistance than this book. If you are to charge an ongoing service fee or retainer, it is vital that you can articulate the ongoing services you will provide and equally important that you have processes in place to ensure that you actually deliver what you promise.

The calculator in our online *Pricing Advice* program provides an extensive list of ongoing services for you to build into your package. However, if you are new to this concept, you will be better served either by contacting a Practice Development Manager from your licensee or through external practice development coaching.

When undertaking this first step, you should consider the ongoing client-facing services that you will provide to a typical client. You will add further services and behind-the-scenes work in step two where we will examine your variable fees, which will be affected by the client's complexities.

Your goal should be to determine a basic fee for two or three different service levels. The largest differentiator between these service packages will be the number of face-to-face reviews you will conduct.

We will then determine the additional fees that you will add dependent upon each individual client's complexity. This will incorporate any additional client-facing work you will do, plus the back-office tasks that are completed without their presence.

Segmentation has a whole new meaning.

You are about to price your segmented service offerings. Understand however, that this is not client segmentation as you know it. The concept of client segmentation came about because it is appropriate that clients who pay more should get a greater level of service.

When advisers are paid by asset-based fees or trail commissions, they create the need to segment their client bases because their income is pre-determined by the assets each client has. *Typically, they work out what they get paid for each client and*

then select which services to provide to justify the fee. This method sometimes—but not always—reflects the level of service that the client wants or needs.

When creating an effectively segmented fee model, we completely reverse the process. *You first determine the services your clients want and need, and then calculate the fees they pay to get access to those services.*

For simplicity, we have referred to the levels of client service as Platinum, Gold, Silver and Bronze throughout this book, as many advisers will be familiar with these terms. However, you may like to relabel your service levels to more directly reflect the degree of service they provide. For example, you could use Premium Service down to Maintenance Service. Another alternative is to align them with the style of client—Retiree; Pre-Retiree; Wealth Builder.

When reviewing your service packages, pick a typical client for each category and think about what you *actually* do for them. Then think about what you should do for them. And finally consider what *they* would like you to do for them. If you have different answers to each, don't panic. This is the perfect opportunity for you to create processes and tools that will allow you to deliver the proper services profitably and consistently.

Step One—Base Rates

Setting fees for straightforward clients

The first step is to determine the base rate that needs to be charged for a simple client in each of your client categories.

Take each service listed on your ongoing service offering and determine the average length of time it takes for your team to conduct that task (segregated into adviser/para-planner/admin support). Again, you need to arrive at the *average* time. This is not an exact science and you will be able to refine it later on, to account for those clients who may require more phone calls than the average, or who take longer in reviews etc.

Also include an allocation for fixed costs where you may have a client-specific expense to add to your fees, such as a gift hamper or catering costs for a function. Note that costs to implement similar services across your whole client base—such as newsletters, financial planning software, and telephone calls—have already been accounted for in your passive overheads, assuming you incurred these costs in the previous year.

Remember to account for *all* of the time that occurs with each task—for example, a client review might include admin time to book the client in for their meeting and prep their file; a para-planner may run the portfolio valuations; and the adviser will spend time prior to the meeting reviewing the client file, and again adding file notes after the meeting is concluded.

Your service offering should allow for the client to contact you at any time. While there may be some years when they speak with you frequently, there will be others they do not. You should cost in a certain amount of adviser time to handle incoming calls.

There will also be times when you need to get in touch with your clients—if there have been changes either in legislation or to their investments, for example. While there is no way of predicting how many ad-hoc calls you will make or receive in a year, build in an allocation for these. Reduce this allocation as you move through your lower service levels as it is likely that clients with multiple investments and greater complexity in their affairs will need more ad-hoc contact than a client with simple needs. Sometimes the reverse may be true, as with a pensioner who is particularly nervous or simply chatty and is in contact more often.

Once you have calculated the time-cost for each service, you can determine how many times per year each of your client packages will receive that service. For example a Platinum client may get four reviews per year, whilst a Silver client only has one.

Your final action is to multiply the total services for each segment by your charge-out rates and you will arrive at your minimum annual fee for each service package.

Remember when you're refining your client service matrix, that every client sees value differently. You may well find that the only thing differentiating your Platinum service level from Silver is the fact that a Platinum client gets quarterly instead of annual meetings with you. Don't get caught up in equating value with time—it is likely that your Platinum clients will have significantly more complex portfolios, requiring correspondingly involved advice. We will cover this aspect now.

Step Two—Variable Fees

Catering for client complexity

After establishing your base rates, you need to determine the additional fees you will charge to account for more complex advice and clients with higher service needs. There are a range of issues that might affect the ongoing complexity of your client's needs, ranging from an SMSF to a direct-equities portfolio.

Make your list of additional complexities and then determine the premiums you will add for each additional level of complexity. You may simply count the additional time spent by your staff, or you may add a value component, in recognition of the fact that clients with certain complexities may impose higher risks on your business, or require specialist skills to manage their affairs.

Specialist Knowledge

If you specialise in a particular area of practice, such as SMSFs or business succession planning, you may find that you have already included a premium for this specialist knowledge in your hourly charge-out rate. Naturally, you will have fewer chargeable hours than a general practitioner because of the additional time you must dedicate to staying up-to-date in your chosen field of expertise.

In addition to your premium charge-out rate, you may also add a variable fee to your ongoing client services to directly account for the additional work required to implement and advise upon specialist strategies.

In this section of your variable pricing, you can also add a premium for issues that may not necessarily represent complexity but which nevertheless increase the cost to service some clients. These may include:

- Additional support—Just as we discussed when creating your initial fees, some clients will require additional time on the telephone and/or in person throughout the year. This is where you can add a variable fee for high maintenance clients who absorb more of your personal attention than most. The actual time spent will vary from one client to the next but you should arrive at an average amount of additional time that you wish to add for these clients.
- Quarterly Centrelink reporting—Complexity isn't related only to activities required for high net worth clients. Centrelink support is the perfect example of this. Most clients who are claiming age pension are retired and have lower portfolio balances. But whilst they may only require a full review once a year or even less frequently, they could need assistance with completing and lodging their Centrelink Reporting Statements every three months. This won't necessarily be a blanket rule for all of your retirees who receive Government support—some will require your assistance, others will not. Depending on how you structure your services and procedures, this could be a time-consuming exercise, so you may choose to add an additional amount to your annual base fee to cover this. By adding it here, under variable fees, you can ensure you apply it only to those clients who actually require this service.

Accounting for FUM

In Chapter 2 we considered the fact that if you make investment recommendations for a client and provide an ongoing service with regard to such investments, you take on a risk that they may not perform either to your or the client's expectations. Therefore, if you have elected to use a flat fee model, it is important that you add an amount to your annual fees that compensates you for this risk.

The reality is that no matter how thorough and robust your research process is, there will always be investment managers who act fraudulently, or risk factors that were not evident at the outset.

Whilst it is essential that you invest according to a client's risk profile and ensure that the client understands what that means, there will inevitably be clients who react poorly to under-performing investments. These clients may seek damages against you, and Complaints Tribunal case transcripts are populated with advisers ordered to compensate clients even though they had good processes in place when creating their portfolios.

It is also important to note that despite the requirement to have professional indemnity (PI) cover in place, many of these policies do not pay out, leaving advisers to repay clients from their own resources. Higher sums invested naturally lead to higher compensation amounts—sums for which you as an adviser could be liable.

The beauty of a flat fee model is that you can provide advice to clients who may or may not have investments managed by you. You may provide valuable advice to clients who are focusing on paying off their home loans, have assets in property, defined-benefit super funds, the list goes on. By accounting for FUM in your variable fees, you are reserving this premium for clients to whom it is applicable.

You can structure this premium in one of two ways: either by a flat fee that varies with the size of FUM, or by using an asset-based fee. Both of these are charged in addition to the base fee you have already calculated (Step One—Base Rates). Whichever method you choose, ensure that you have the administrative capacity to collect these fees.

Flat Fee

In this case, you determine a fixed amount to apply to bands of FUM. For example, $100 per annum for every $100,000 of FUM. So if a client has $160,000 you would add $200 to your fee.

Asset-Based Fee

Bearing in mind that this will be applied *in addition* to your base rate, it should be at a rate considerably lower than the percentage you would charge to cover the entire advice offering. But how much is enough?

There is no simple answer to that question. This is an extremely subjective area and one that will vary wildly depending upon the opinions of each adviser. You must select an amount that you feel is appropriate for your firm and your clients.

Step Three—Activity–Based Fees

Allowing for unforeseen extras

When you set your annual fees, you may choose to offer all-inclusive fees that include additional advice if required, or you may choose to closely align your fees with the specific services outlined in a client service agreement and reserve the right to add to this fee if the client requires something outside of the scope of your agreement.

When you set your ongoing fees, you need to be wary of setting a fee that's too low and then having clients constantly requiring more support and services. Ensure that if you're going to include *everything* in your ongoing fee—as opposed to charging a retainer plus additional activity-based fees—that you have built in a sum to cover possible future complexity.

SOA Preparation

There are a number of reasons why an existing client may require a new SOA from time to time. If their review results in new recommendations that must be documented and then implemented, you will have additional work after the client leaves your office.

An existing client may also present you with a new requirement for advice, such as moving from accumulation into retirement or handling a redundancy, inheritance or lottery win.

A client may also request your advice on an external asset purchase, such as property, where they need assistance with managing cash flows, insurances, determining ROI etc.

Now that you have calculated what your minimum set fees should be for each ongoing service you provide, you are able to determine how you will quote this fee.

Annual Review

It is imperative that you index your flat fees each year, preferably using a system that implements the increase automatically, such as your wrap account. This indexation could be CPI or AWOTE, or a fixed amount, such as 5%. You must outline this in your ongoing service agreements.

Not only should you revisit your pricing model itself, to ensure that the figures in your fee schedules are adequate, but you should also review each client's fees each year on review. This will ensure that they remain appropriate for the level of service they will need in the ensuing year.

If you have elected to charge asset-based fees rather than flat fees, you now need to determine what percentage you will use to charge for your ongoing advice.

Whilst this is a very imprecise method of calculating your fees, the work you have done thus far by following this book should have given you a better understanding of pricing in order to create your model.

Using an Asset-Based Fee Model

If you decided after reading chapters three and four that an asset-based fee model is right for your business, you'll need to convert the numbers you have calculated to suit such a model.

First you should consider the typical amount of FUM that your ideal client is likely to have. Then you will need to think about the typical complexity that this ideal client is likely to involve.

Using the set fees you determined for your fee schedule, calculate the minimum fee that you should charge your ideal client—in actual dollar terms. Then take this minimum fee and divide it by the figure you determined as the typical amount of FUM held by your ideal client. Convert this figure to a percentage and you now have the asset-based fee to charge.

When charging asset-based fees, there will be a threshold at which your value and cost to serve is reached. Any additional sums move first into pure profit but then become unreasonable fees to clients. To avoid this, you must also decide at what level of FUM you will reduce the percentage rate charged. Obviously there are many variables that will come into play with this model, and few—if any—clients will precisely mirror your specified ideal client.

The model you have chosen directly relates a client's worth to the level of assets they will invest with you, not the level of service or value they will receive from you. Hence anything over and above your minimum fee must fall, by default, into the area of art rather than science.

CHAPTER FOURTEEN
APPLYING A VALUE OVERLAY

The problem with costing your advice purely on a time basis, as we have already seen, is that the length of time it takes you to formulate your advice, run the numbers and then deliver your advice in a compliant manner often has very little correlation with the value of the advice that you provide.

There are some instances where you can measure the tangible difference that your advice can make to a client in the form of increased savings, higher Centrelink benefits, decreased tax payable and so forth. However it is far more difficult to quantify the other benefits that your clients value, such as the comfort they take in knowing that someone else is watching over their financial affairs—the sleep-at-night factor. In providing financial advice, what else do you do for your clients that is worth paying for?

- Investment selection—sorting through the thousands of investments available to arrive at a portfolio that is appropriate and robust.
- Portfolio management—keeping it within the client's risk profile regardless of what the markets do and, of course, helping them understand what their risk profile is in the first place.

- Risk management—in addition to managing the risk in an investment portfolio, most advisers will also ensure that clients consider the unthinkable and put in place plans (or policies) to protect their family in the event of a catastrophe.
- Goal setting—as we know, the first step to achieving your goals is to write them down. Yet it's surprising how many people meander through life without really thinking about what they want or setting goals.
- You help them make sound investment decisions, rather than emotional reactions.
- It's not just the actions and decisions that you help people to make; it's the actions and decisions that you help them *avoid* that are sometimes more powerful and valuable.
- Strategic advice—how to maximise their outcomes while working within the law.
- Accountability—not only do you help define what a client needs to do to achieve their goals but you keep them accountable by ensuring that these actions are implemented.
- A steady influence in volatile times.
- Someone to provide answers to their financial questions—if you don't have the answer off the top of your head, you will know how to find it.
- A translator—of tax law, of investment philosophies, of the financial language you're fluent in, but which is foreign to most people.
- An educator, teaching clients about how to handle their money and grasp financial concepts.

And while doing all of this, you take care of the boring paperwork—a task few people enjoy.

Clients don't care how long it takes you to do something (provided it doesn't take too long!). They are only concerned with the outcomes of your advice. They come to you with issues or problems, seeking solutions—your time is not the only thing they need; it's your intellectual property, and your ability to consistently coach them in making—and carrying out—the right decisions about their money.

So why did you just spend the last three chapters concerned about the time it takes you to do everything in your business?

Well, until you get lots of practice at it, it is very difficult to simply pluck a figure out of the air and be sure that this fee will cover your costs, let alone provide you with some profit.

As discussed already, we have found that advisers who have undergone a cost analysis of their business are far more comfortable with charging fees as they have a thorough understanding of what it costs them to provide advice, and thus a solid basis on which to formulate their fees.

We suggest that you don't just stop here and use the minimum fees that you have calculated, otherwise you may as well just charge hourly rates.

Not only will you simply be charging clients for your time, rather than your expertise and the outcomes they will achieve, but there are a number of other flaws in using a time-based calculator alone, as we have done so far:

- There may be factors outside of your control that affect your overheads, which may increase by far more than you have built in for inflation.
- You may have staff turnover, which will mean far fewer chargeable hours in your practice than you expected while you find and train replacements.
- You may not be able to find enough new clients to keep your staff working at maximum capacity.
- You may have miscalculated your chargeable time for each staff member.
- You may have miscalculated the time it takes to complete each step in your advice process.
- You may have a licensee fee that varies according to your earnings, number of authorised reps etc, and this may not have been adequately accounted for when you determined your charge-out rate.

The list goes on.

Let's not forget that the value of financial planning businesses, indeed the reason we get 2.5 to 3 times recurring revenue rather than the 0.8–1 times accountants typically earn, is due in part to the leverage you can get within a business. Your revenue is not limited by the human hours you have available in the practice under current trail commission models.

Of course, there are other reasons why financial planning businesses achieve a premium, and these have been discussed in chapter one, but the fact is, if you limit your fees to time-based methodology, you will likely miss out on leveraging your revenue and may inadvertently reduce the sale value of your business.

Regardless of whether you intend to continue your practice for years or decades, you should always run a business as though it were for sale. Don't let the decisions you make today affect the future long-term value of your business.

The fact that you are no longer being paid by commissions should not prevent you from achieving leveraged revenue.

So what do we do about this?

The solution is to use the fees we have calculated so far as your minimum fees, and then apply a value overlay, adding a premium to your minimum fee for some clients. The premise of value-based fees comes back to the outcomes that a client will obtain by engaging your services.

For example, let's say you created a transition-to-retirement strategy for a client and by implementing your advice they are going to save an extra $30,000 a year for the next five years before they retire. But you have been very clever and used a software application to optimise the numbers and create the SOA, so it only took you two hours to put together the advice.

Are you only going to charge them, say, $700 or $800 for that?

It is likely that when you demonstrate that the client will save $30K a year for the next five years, they will be happy to pay you a much greater fee.—$3,000? $5,000? $10,000? Had they not obtained your advice, they may have been blissfully unaware of the existence of this strategy but they would also have been more than $150,000 worse off.

Needless to say, you should not itemise your fees by listing what covers your time and what has been built in as a value overlay—you should quote your client the total fee that you are charging them.

The bad news is that applying a value overlay is the hardest part of pricing, and the part that varies most among clients.

If you want to read in more depth about value-based fees, I'd recommend American consultant Alan Weiss's book Value Based Fees, which is available from Amazon or Alan's website, www.summitconsulting.com.

People often say that something is worth whatever people are prepared to pay for it. While there is some truth in this saying, it's possibly more accurate to say that people attribute value depending on the cost of something.

Advisers constantly find themselves surprised when they go to a new client meeting

and quote a higher fee than they have charged other clients in the past. I have lost count of the number of times I have heard something like: ‘I don’t know what I was so worried about—the client happily accepted that fee without batting an eyelid!’

The reason for this is that if the client has no preconception of what the fee will be, and the adviser successfully demonstrates that they can provide a quality service that will benefit them, then the client will accept that this service is worth whatever price the adviser puts on it.

Of course, they may discover another service that is cheaper. But if you have demonstrated the quality of your advice—and the reasons why you are the best adviser for them—then they may dismiss a cheaper adviser as being inferior, or not experienced enough to handle their affairs. In the same way as they may choose to drink only espresso coffee instead of instant, they are prepared to pay more for what they perceive as quality.

People will pay different amounts for what is seemingly the same thing but they value it differently, and that’s where the value overlay comes in.

Consider people’s choice of motor vehicle. Why do some people pay $15,000 for a Kia while others spend $150,000 on a Mercedes? Both cars have four wheels, a gearbox and a steering wheel; you put fuel in, you drive from A to B. Of course, one has higher safety ratings, can go faster, will last longer and looks nicer than the other (I could go on) but at the end of the day, they do the same job.

The fact that there are both types of car on the road is partly about the balance of quality and affordability but also about the value placed on them by the purchaser. There are many people who can only afford a Kia, so the Mercedes doesn’t even make their list but there are others who could afford a Mercedes but choose to buy a Commodore as they don’t value the prestige or driving experience.

People’s definition of what they can afford varies wildly too. One person may consider that they can afford a Mercedes because they can manage the monthly repayments and still put petrol in it, while someone else may feel they can afford it only when they have paid off their home and can pay cash for it, without dipping into their savings and reducing their spending money in retirement.

The fact is that there will be some clients for whom it is appropriate that you only charge your minimum fees. To reiterate what we have said earlier, *as their financial adviser, you are the best person to determine the value that a client will receive from*

your advice and, indeed, what they can afford to pay. This is fine—you will likely decide not to apply value overlays to every client in your business. However, when you consider them one at a time, you will find that some clients can afford to pay you more than your minimum fees, that they will indeed receive value that far exceeds those fees, and will be happy to pay them.

There are a number of ways that you can quantify your value overlay to arrive at the fees you will charge each client:

- You may choose to increase the charge-out rate if you are working on complex financial planning issues that require a greater level of expertise than the norm. So you would use your fee calculator but apply a higher hourly rate against the adviser time, to arrive at a higher fee.
- Some work on gut instinct—advisers use their intuition as to what a client will be prepared to pay and still see value in the advice provided. This may be purely guess work or the adviser may choose to actually ask the client if they have any pre-conceived notions of what the fee is likely to be.
- Similarly, the adviser may arrive at a fee based on what they think their client can afford. Someone who is accustomed to spending thousands on their clothes (rather than hundreds), or paying high prices at exclusive restaurants rather than dining at home is likely to be happier paying a higher fee for advice. Provided they value your advice, they will be prepared to pay a premium for it. *Note that I am talking here about the clients who can genuinely afford a premium lifestyle. The fact that people choose to spend money doesn't mean that they can afford it. If you are dealing with a client who is living beyond their means, then you owe it to them to earn your fees. Charging them what you think they will pay will only exacerbate their debt accumulation unless you forcefully help them rein in their spending in the appropriate areas, get their credit cards under control and start building their assets rather than debts and tax.*
- If you have chosen to receive commissions from risk insurance, finance broking etc, this may go some way to providing your value overlay. If the underwriting process has been simple and you never need to assist a client with a claim, then you will enjoy a good profit on this client. However, you may find that you earn every dollar of that commission if the client needs to make a claim and you spend a lot of time and emotional energy liaising between the insurer and the sick or grieving client.
- Where the outcome of a recommendation is quantifiable (eg save X in tax or accumulate Y in savings as compared with your current strategy), calculate the fee based on a percentage of this outcome—e.g. 10% or 20% of the outcome.

- You may also obtain a value overlay by applying the complexity measures to your ongoing service matrix, based on a premium that is not solely predicated on the time involved. For example, rather than adding three hours of adviser time, you might add a flat fee of, say, $2,000 for complex needs. This is justified as a client who has a self-managed super fund should obtain better outcomes due to their greater capacity to implement strategies compared with a client in a public offer fund.

A final note on this issue. If you're going to charge premium prices, make sure you can justify them. Are you more experienced than your peers? Have you studied more extensively? Do you specialise in a particular area? Have you won awards? Are you completely on top of every piece of legislative change that may affect your clients, and does your advice always provide the most effective strategy for them to achieve their objectives?

You may feel that you already achieve the value overlay if you obtain a minimum flat fee plus a percentage of assets invested. Alternatively, if you have elected to use asset-based fees, you will achieve your value overlay from those clients whose FUM exceeds your minimum fee level.

Speaking from experience...

Anne Graham CFP® LRS® CPA, Director/Financial Planner, McPhail HLG Financial Planning Pty Ltd:

We've had a fee for service philosophy for many years and our fees have been based on a combination of factors. When providing a client with a fee estimate we would take into account the complexity of the work, time it would take to prepare, value add to the client and so on. That was the theory, however in practice we often fell back to the hourly rate approach.

What we sometimes lost sight of was the extent to which we added value to a client's situation and the Intellectual Property (e.g. experience, education, and training) expended in providing the advice. When you are doing something you are passionate about every day, it is easy to lose sight of the difference you are making to your clients' financial futures and you take it for granted.

When we reviewed our pricing model and cost to deliver, in conjunction with the value we added to a client's situation, we started applying a 'value overlay' to

our quotes on a more systematic basis. Initially it was easier to apply the overlay when the value-add was very obvious in terms of dollars. Where we really struggled was when the benefit to the client wasn't so tangible and usually it was us that had the problem, not the client.

We now have a more consistent approach to the calculation and application of the value overlay. The quote for the advice is provided to the client after we've had the opportunity to fully appreciate their situation and what will be required to help them. Importantly, the fee decision is not made by the adviser alone and is generally agreed by "committee". That is, the adviser and para-planner discuss and agree on an appropriate fee and the decision is not unduly influenced by any emotional attachment the adviser may have with the client. In fact, the client isn't aware of the overlay and is provided with a quote for the fee as a whole.

The overlay we apply is generally calculated by adding a flat fee to the initial fee calculation based on the complexity of the client's situation. For example, we worked with a client who had a potential Death Benefits tax bill in excess of $350,000 and after restructuring her affairs the tax has reduced to around $70,000. Due to our experience and knowledge we quickly identified a problem that the client was unaware of and provided a solution. This situation definitely warranted the application of a value overlay. Due to the value-add, our client was more than happy to pay the fee quoted, which was about 3 times our minimum fee had we charged only on the time spent.

The overlay isn't applied to all situations as in our view it isn't always appropriate. However when it is applied there is very little pushback as we make it very clear to the client what we are doing and how our advice is adding value to their situation. ”

CHAPTER FIFTEEN
TOO MUCH?

Advisers often get to this point in their pricing journey and discover they should be charging much more for their advice than they are accustomed to. This is because they have never really analysed what it costs them to deliver their services.

The simple fact is that if you have been running a business that is based on trail commissions and you have not applied minimum ongoing fees, you will have a legacy trail book of clients—those from whom you don't receive enough revenue to warrant a full review service. This means the clients don't get serviced, beyond receiving a newsletter and access to you if they need it.

Until now, that book of passive income has subsidised your cash flow, so you may have been able to run at a profit while effectively charging your new clients subsidised fees. But if you are going to run your business on a true fee-for-service model—and indeed if you find your trails cease or you experience significant attrition from your trail book as clients flock to transfer their funds to nil-commission products—you will have to start charging more for your advice. This is especially the case for advisers who have been relying on volume override payments for placing FUM with certain

manufacturers, if their arrangement now ceases under the Conflicted Remuneration rules.

You have been through this process precisely to determine that you will in fact have to start charging what you're worth.

If we have to charge more for our services than we used to, are we breaching the very foundation of our profession—the 'client first' principle?

Absolutely not. Financial planning practices will look very different in 10 years time to how they are today. And they are already vastly different to what they looked like 10 years ago!

In a commission-based business, as discussed, there are usually a lot of clients who are paying trails that are not substantial enough to warrant a regular structured review service, so they have a transactional relationship with the adviser—they can get in touch when they need to and you will help them if and when they seek your help.

In most cases, these individual amounts are relatively small, so these clients either don't notice or don't care that they get little or nothing in return. However when combined, they may represent a substantial amount of cashflow to your business, which subsidises the provision of advice to other clients who are not paying enough but really do need advice.

In effect this is not unlike an insurance company—all clients pay premiums for their policies and the premiums are pooled together to fund claims, which are paid out only to those policy holders who require assistance.

However, with insurance the customers are well aware of the situation. Indeed, it's likely that they hope their premiums will turn out to be a waste of money, and they'll reach retirement with no catastrophes that would warrant a claim being paid.

Financial planning clients are unlikely to take the same view, and it is more appropriate that they pay for advice as and when they need it. This does not preclude a retainer/ ongoing fee arrangement; it just means that if they are paying an ongoing fee, they should receive some level of service commensurate with that fee.

In the new world, advice businesses won't be adding to their trail books of revenue. This makes it increasingly important that when they do take on a client or provide advice, they do it in a profitable manner.

We would argue that part of a fiduciary relationship—and your moral duty to your clients—includes an assurance that you will be in business long enough to continue providing them with the long-term assistance they will need to implement their financial plan, and keep it relevant to their changing needs so they achieve their long-term objectives. If you don't get your pricing right, you may put yourself out of business, and then where will your clients be?

So if you have now discovered that the fees you need to charge are higher than you have ever charged before, what are your options?

- Start by reviewing your calculations to ensure that you used the correct figures—did you over-estimate the amount of non-chargeable time your advice staff have? Did you input the right numbers for your overheads etc? If your calculations are correct, perhaps you need to trim your overheads. Is the building you operate from exceedingly expensive? Are you paying for things that you don't need? Do you have non-chargeable staff who are not working at capacity?
- Perhaps you need to step back even further in your pricing process and revisit your ideal client. If the people you are targeting are not prepared to pay the fees you have determined you need to charge, perhaps you need to attract new clients who fit a different description? There is no point in trying to sell a Mercedes to someone shopping for a Kia, someone who is never going to pay that much for advice.
- Alternatively, if you are firm on the type of clients you wish to work with, perhaps revisit your service offering—are you offering too much to them that they don't value? By stripping out some superfluous services, you will be able to trim the fees.
- If you are concerned about the level of your engagement fee, revisit your process—can you be more efficient in how you create your advice? Do not be tempted to cut down on the face-to-face time you spend with your clients. Even if you strip out a strategy presentation meeting, you may only remove a few hundred dollars but the effect on your engagement success could be dramatic.
- This same argument goes for ongoing fees—are the appropriate people undertaking the various tasks in your business? Do you make effective use of software systems to manage your client data and create your advice so as to deliver quality services in an efficient manner? Outsourcing certain tasks can be a great option, enabling you to prevent paying fixed salaries for staff who are not yet working to capacity.
- If you feel that new clients really will baulk at paying your engagement fees, you may choose to reduce the amount you charge to engage the client (as

discussed in Chapter 13), but increase your ongoing fees to make up the balance later. Alternatively, you may allow them to enter into a payment plan to fund the engagement fee. This will sit alongside your ongoing fees, with the two clearly separated. The client will know that one payment will cease in 12 or 24 months, while the payments for your ongoing services will continue.

- If your minimum fee is too much for many of your straightforward advice clients, you can go back to your charge-out rate calculations and reduce your profit margin.

  WARNING!

  If you are going to take this option, take measures to ensure that you also complete the second part of this strategy. By reducing the profit margin in your minimum fees, it becomes absolutely vital that you apply premiums wherever you can in your value overlay to other clients. Otherwise the temptation will be to charge the minimum fee to most clients and you will end up with a business that has no profit margin. You will then be working yourself into the ground without sufficient reward for the risks you are taking by being in business.

  You may find it better to keep your minimum fees as they are, but allow yourself the ability to discount by up to the amount of your profit margin (e.g. 30%) for those special existing clients to whom you wish to continue providing service at cost.

  There is a psychological impact here for the adviser. When you are sitting with your client, you will often be wearing your 'adviser' hat rather than your 'business owner' hat. So you will be focused on looking after the client, not yourself. Many advisers find that they take the path of least resistance. This means that although they created a fee structure to be used as a minimum guide, when they assess their pricing six months or a year later, they discover that they have rarely charged a client above the minimum. Those who have charged more have usually had a business coach or a pricing committee keeping them accountable.

- Make sure you analyse *all* fees a client is paying—do you need to update your products? For example, if you're using an outdated Master Trust, and you have the ability to transition clients onto a more cost-effective platform, you may find that you can reduce your clients' total fees but increase the amount that represents your advice fee. Many product providers have old legacy products that are expensive and cumbersome, yet they still receive inflows because advisers continue to use them. Naturally you will need to assess any

CGT that may be triggered, and any benefits lost for each individual client, but if you have not assessed the platforms that are available to you in the past two years, you may already be doing a disservice to your clients. With the removal of in-built commissions and volume overrides, every product provider has reviewed their product suite, and competition has forced prices down.

If you have revisited all of these options and you still feel uncomfortable charging those fees, what do you do?

To be blunt, it's time to put your grown-up pants on and get on with it!

This may sound harsh or even blasé, but seriously, what's the alternative? If you discount your fees from what you have calculated here, you will effectively be giving away your advice for free. At the risk of repetition, you should have a pro-bono service for clients who are introduced to you and genuinely need advice but can't afford to pay for it. However, these clients must remain the exception rather than the rule, otherwise you'll be bankrupt in a short space of time if you lack a commission base to subsidise your business. What would that say about your skills as a financial planner?

"But I could never charge that much!" I often hear this from advisers who have frequently earned "that much" by way of commission but are uncomfortable now that they have to ask for it by way of a fee.

Clients will pay whatever you quote them, provided that your delivery is confident and that you can demonstrate value in their terms for the fee. But if you think you can't charge that much, you're absolutely right. If you think your fees are too expensive, your clients will too—they'll sense your perception and adopt it as their own.

Why is it that advisers who have years of experience and provide outstanding advice to their clients are more nervous about asking to be paid than new advisers who have never known any remuneration method other than fees? It's not because the newer adviser is any better at sales—or advice. It's simply because they know no other way and their clients have no problem with paying fees.

The next chapter in this book provides you with some assistance in how to sell your fees but you may find that you need someone to help you recognise your own worth. Our experience in this area demonstrates time and again that advisers who are confident in charging their fees rarely have a client who objects to paying them. If you are struggling with understanding your worth as a financial planner, or the value of the

service that you provide to clients, either improve the quality of your advice or speak with someone who can help you build your confidence.

You also need to maintain your integrity around the quality of your advice. If you can't provide outcomes for a client—you can't provide advice that exceeds the value of your fee—then refer the client elsewhere, regardless of whether or not you think you can sell the fee to them. This is where your integrity as a financial planner must take priority over your ability as a salesperson.

The value judgement isn't confined to purely quantifiable value, as in the amount of tax you can save them, or the returns you can estimate. The value in having a trusted adviser to answer questions and prevent poor financial decisions will also have a qualitative impact on your clients' lives.

You need to make a judgement call on what's fair and reasonable in each specific client situation. Suppose you are charging a flat fee of $5,000 to a client who has $80,000 invested with you—your fee represents more than 6% of their assets. If that client is a widowed pensioner, the $80,000 is her entire life savings, and she only requires assistance with Centrelink, the fee would be excessive. However, if the client is a couple in their late 30s on a combined income of $150,000 and your fee includes advice on cashflow management, savings programs, superannuation and investments that sit outside of the $80,000 invested on your platform, it would represent significant value for money.

Once you have come to terms with your new fee model, you can use the techniques listed in Chapters 16 and 17 to assist you in making the changes in your business.

Speaking from experience...

Kay Aarons, CFP B.Ec.
Director and Financial Planner, Strategic Financial Solutions

“Having charged fee for service now for years I would say that the biggest obstacle for most advisers is the self-belief that they are worth paying. I don’t even think that I’m 100% through that yet, but it is a critical part of pricing well—first valuing yourself and then valuing the advice that you give—once you understand that, then you can appropriately structure your fees.

It needs to be priced in a way that the client wins and we win. You often hear at conferences, advisers talking about charging $15,000 and $20,000 fees, but frankly you don’t need to do that in business. You can create a well-priced solution for clients at any stage of life.

That said, it really comes down to what a client needs. If they simply don’t have the resources to do much with, you shouldn’t take them on.

If you can only save a client $5,000 by implementing your advice but it will cost them $5,000 to pay your fee, it’s clearly not worth it. However if your advice will save them $20,000, then $5,000 is quite reasonable.

We know what we need to do for a client and we know the minimum amount we need to make to achieve cost recovery—once you know that it is a lot easier to confidently state your fees. And you need to be willing to allow people to say “no that’s not appropriate for me”—you don’t have to ‘win’ every client. Equally, as the adviser, you must also be in the position to say “no” to a potential client if you do not believe you can provide sufficient value.

As you get more experience with charging fees and gain more self confidence you get better at it. It is simply a question of effectively communicating our value to the client. We have been charging flat fees for all of our new clients. We have also transitioned most of our existing clients to the flat fee model as well.

The few clients who have not seen the value in our flat fee model, probably don’t see value in what we provide. If we want to retain those clients, it is our challenge to communicate our value more effectively.”

CHAPTER SIXTEEN
SELLING YOUR FEES PART ONE—PROCESS

When it comes to moving to a fee-based pricing model, you will require a combination of art and science, process and practice, method and instinct. Not only for determining the actual fees you will charge each client, but also in how you communicate the fees to your clients, in order to engage them with it.

If you are accustomed to downplaying the way you get paid when you speak with your clients, and if they have the impression that they don't need to worry about your fees because you get paid by the fund manager, then you will most definitely need to start having entirely new conversations with them.

It goes without saying that for the past few years at least, you have clearly disclosed your remuneration to your clients. But the fact that clients will now be making buying decisions based on their perception of the value of your advice, means that you will need to convey that value clearly. You will not only have to rethink how you explain your fees and your value but you may also need to rethink the entire process through which you 'win' new clients.

As with anything new, don't expect to get it right first time – it will take a few goes to be able to explain your new fee model well to your clients, but with the right preparation, and perhaps some new tools in your kit bag, you should have no problem in being paid what you're worth.

If you discover your fees are more than double the amount that you've ever charged before, and you're really concerned about this, don't try and make that quantum leap with your first client. As much as your next new client won't know what the last client paid—don't underestimate the power of your own mind.

With your next new client, charge at a point halfway between what you're comfortable with and your new fee. You'll surprise yourself at how easy it is to demonstrate your value, and how the client doesn't bat an eyelid. Once you've done that once or twice you can then charge your correct fee to the next client.

It is important that you are comfortable and confident with the fee that you put in front of your clients. However, be specific about the number of people you will induct at each level. In our research, advisers reported that if they set a minimum fee with the intention of charging more 'when they could', they very rarely lifted the fee as they settled into a comfort zone.

Let's focus a little more now on your new client process, to ensure that you can communicate your advice and value well.

When you receive an enquiry from someone that fits the description of your preferred clientele, you want to put them in a position to see value in your services and engage you, so how can you maximise the probability of that happening?

The process that you take clients through is just as important as the conversations you have, or the documents you use to promote your advice.

Many advisers are accustomed to conducting one meeting with a client and then placing an SOA in front of them in the second, expecting a signature on the Authority To Proceed. Whilst they often get a signature, and successfully make a sale, they may not have built a firm enough foundation for a strong ongoing relationship yet.

Moreover, if they have provided a comprehensive plan, they are unlikely to have spent enough time educating the client about the strategies employed, or investment markets, risk and return, etc.

We would argue that to create a long-term relationship with your clients, you need to spend enough time to get to know them well, and to allow them to understand their financial plan, and embrace it.

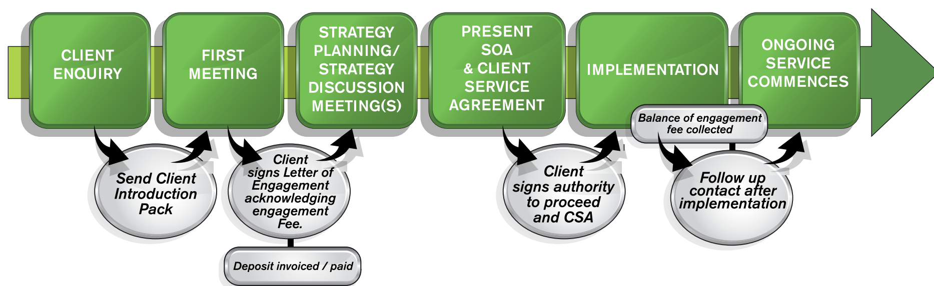
Clients will now be fully aware of how much they are paying you to provide advice, and you will have far greater success if you take them on a journey to understand their financial plan, and if they are involved in its creation.

For a client to happily engage your ongoing service package and not suffer buyers remorse, you will have to spend more than just two meetings to truly engage them.

If you are creating a comprehensive financial plan, there is almost certainly too much information for them to absorb in one meeting.

You need to help them understand enough about your recommendations and enough about your services and expertise that they will not only embrace their financial plan but also be happy to pay your ongoing fees and engage you for the next decade or three.

Your new client process should look something like this:



*Note that this diagram is designed for adviser/office use only.
You may like to use a client-facing flowchart as a 'point-of-sale' tool, to assist your clients to understand the process of engaging with you. See the Elixir website for a template that you can customise with your own process and branding.

Client Enquiry or Referral

We know that clients will need to get a sense of trust with you before they will engage your services. We also know that the first steps to trust are rational and linear—clients want to assess your qualifications and technical proficiency before they go deeper into their intuitive senses to determine if they're comfortable with you, when they meet you face-to-face. The best on-boarding process will enable clients to do their 'homework' on you before you even meet, so you can spend time getting to know each other as people, when you get together.

It's a good habit to have the adviser spend 10–15 minutes on the phone with a new enquiry, to commence the process of getting to know each other (and also screen out enquiries who won't become clients.) When the meeting is booked, the adviser explains the importance of the client doing their research prior to the meeting, so your time together can be spent on understanding more about their situation. Encourage them to review the information you will send when confirming the appointment.

If a client enquires about your fee prior to booking their first meeting, you can quote a range of fees but explain that your actual fees will be based upon the client's needs; that your first meeting is done at your cost, after which time you will have an accurate picture of their needs and will scope their fee prior to them engaging you.

In a nutshell, you can tell them: "By the end of that meeting, we will both have an idea of whether we want to work together, and you will know exactly what the fee will be before deciding to proceed." (There are some advisers who choose to also charge a fee for their first meeting—typically this will be a set amount, and they would still follow the rest of this process.)

This gives both you and the client the ability to assess whether there is value in working together. If you quote your total fee prior to that first meeting, the client is only hearing the cost; they may not yet have the ability to make a judgement call as to the value of your advice and thus the fee. After meeting with you, they will have a clearer picture of what the likely outcomes are of working together and they are in a better position to decide if your fee is worth paying.

If you're concerned an enquiry is not going to be a serious client, you may choose to quote a range of fees, to screen out clients who have an unreasonable expectation of obtaining advice for free, but still leave yourself room to define the fee when you know their needs.

Send Client Introduction Pack:

When you send an email or letter to the prospective client, confirming your appointment and what you would like them to do/bring, include a client introduction pack, to enable them to research your firm—include your corporate brochure, FSG, adviser profile, plus whatever preparatory forms you wish them to complete. You could send hard copies or attach files to an email, and ideally, include links to your website so they can explore more about you.

Some advisers also attach their Fact Find questionnaire and insist on the client making a start on it, while others find it can be a barrier to new prospects.

Conduct Your First Meeting

Your first meeting will be all about them—your opportunity to ask all the right questions, and to help them uncover not only their financial affairs, but also their attitudes about money, their aspirations and their personal values, to enable you to firstly determine if it's appropriate that you work together, and if so, to design a great financial plan.

The majority of this first meeting should be spent with the client talking. If you have positioned your business and services well until now, you will have far greater success by having the client speak for at least 80% of this meeting, while you listen.

A true professional doesn't need to go overboard selling their skills and services—you should have already demonstrated your success and experience before they arrive at the first meeting, and they will get a sense of your professionalism and expertise in the way you ask your questions and handle their needs.

Some advisers will quote the engagement fee at the end of the first meeting, and allow the client to decide whether or not to engage. Others will say that they need to get together with their team, cast their eye over some more detail on the fact find, and will come back to the client with the engagement fee. They usually follow up the client that afternoon, or the following morning, with a firm quote.

Be careful when quoting a flat fee that you don't cap the fee as the client may start messing about and extending your new client process over six months. Allow yourself the ability to add to their fee if any unforeseen circumstances arise and you need to do additional work. Regardless of when you quote your fee, it's always a good idea to use a client engagement letter to confirm the scope of your engagement along with the fees. This enables both you and your client to get absolute clarity on the basis on which you'll proceed to do business together.

Clients sign this letter to engage you, and we'd suggest you do not undertake any work past the first meeting until you have received it. Your payment terms will be defined in this letter; you may or may not insist that the letter is accompanied by the payment of your deposit.

In most cases, the only fee you can confirm at the end of your first meeting is the engagement fee—and even then you may state that you reserve the right to charge an additional fee if it turns out that there is more complexity in the client's affairs than first thought.

You won't be able to determine the precise ongoing fees that a client will pay until you have gone at least part way down the path of creating their plan. Prior to engaging each new client, you should outline your ongoing services and explain the ongoing nature of a financial planning relationship. But again, refrain from quoting the precise fees. You may quote a range but you can't get specific until such time as you know what the client needs. From a sales perspective, this will also enable your client to get a better understanding of the value of your ongoing services, before feeling the need to commit to them.

You may have heard the phrase 'price is only an issue in the absence of value.' Structure your process so that you define your fees and obtain commitment when the client has had the opportunity to experience and understand your value. Quoting fees too early can result in a decision based on price alone.

Take A Deposit

We suggest that you take only a deposit from the client upon signing the letter of engagement. At this point, the client is usually acting on faith that you will provide value for the total engagement fee, so whilst they may be prepared to commit to the fee, they could still feel uncomfortable about paying the full amount prior to you actually delivering any services. By requesting a deposit to commence work, you are ensuring that they are truly committed to the engagement.

Typically, you might invoice the deposit when the client signs the engagement letter and you may or may not insist on them paying the invoice at their second meeting with you. The balance will then be paid upon implementation—when you know the most tax-effective and cost-effective way for them to pay the fee.

How much should the deposit be? Enough to really commit them to the process. You may choose to make it 50%, or 10%, or maybe a flat $1,000. You may find it more appropriate to set an amount tailored to each client.

If you have a client for whom it would be appropriate to pay from super, you might take only a small deposit—paid from their cashflow—and source the balance from super upon implementation.

Conversely, if you sense that a client is a tyre-kicker, it may be wiser to take a larger deposit before starting work to ensure that they are not wasting your time.

The harsh reality is that if a client chooses not to pay you the balance of your fees and states that your advice was not what they were looking for, you will have a hard time collecting the balance of the fee, and may end up wasting a lot of time and money on debt collectors.

You could offer a value guarantee if you find clients are having difficulty committing to your engagement fee when they have only met you once and don't really know what you can do for them. This guarantee would state that should they not believe that the value of your advice exceeds the cost of the fee, that they don't have to pay the balance. Of course, if that is the case, they don't get a copy of the SOA.

Some Words of Warning

- Ensure that you structure your new client process so that you can educate the clients about the concepts you are covering in the plan. You also need to be sure that you can discover enough about them to ensure that your advice will be appropriate.

- Ensure that your letter of engagement clearly defines your payment terms upon termination—will you keep the deposit, or determine the amount of work completed at that stage and invoice the client a pro-rated amount?

Strategy Planning

After receiving your signed engagement letter, you commence your strategy planning process to create either a strategy discussion paper, or a sample diagram of the likely strategies you will employ for this client. You may do some financial modelling, but at this point you are not documenting your advice in an SOA.

Strategy Discussion Meetings

You conduct a strategy discussion meeting to walk your client through your recommendations, and educate them both on the concepts as well as their likely impact on the client's situation. You are looking to gain 'buy-in' from the client in this meeting, and it will quickly become evident if you have suggested an inappropriate strategy or one that does not suit the client.

You conduct however many meetings and whatever subsequent preparatory work is necessary then, when the plan is ready to be documented, you use your ongoing fee schedule to determine their ongoing fees. Make sure that you highlight the long-term nature of financial planning early in your process, so that the client is expecting to have an ongoing relationship with you.

When it is time to define the ongoing fee, and you have devised their financial plan, use your ongoing fee schedule to calculate what your client will pay. During this process, you may ask the client what sort of ongoing service they are seeking, or you may choose to determine how much contact they need based on the financial plan you have implemented, and your understanding of their personality type.

Present The SOA And Client Service Agreement

You may elect to send the client their SOA and CSA and allow them the opportunity to study them in their own time. Encourage them to scribble their questions on the document, so that you can discuss them in the SOA meeting. By the time your client reads their SOA, there should be no surprises for them—it is simply confirming all of the strategies that you have discussed in person.

This meeting is spent reviewing the entire financial plan and discussing their queries, following which the client signs the authority to proceed in the SOA along with your CSA.

Implementation And Follow-up Contact After Implementation

The plan is implemented, the balance of the engagement fee is paid, monthly ongoing fees commence and you begin delivering their ongoing service package.

If this client's service package means a year will pass before they meet you again at their review, you should ensure that you at least make a phone call upon completion of implementation, and/or around the three-month mark after signing off on their plan. If it is likely that the client has lots of questions, another face-to-face meeting may be in order, to explain in more detail what to expect of their financial plan and your ongoing review service.

Elixir Consulting has a range of templated documents, including a client engagement letter and a client service agreement, that are designed for advisers to customise to suit their businesses. These resources are available from the Elixir Consulting website.

Marketing Material

We have already addressed the timing of when to discuss your engagement fees with

your new clients. We will now look at some techniques that will assist you to increase your success rate when engaging new clients.

Note that you should not necessarily look for a high ‘hit rate’ with all enquiries, as there may be people who seek your advice who would be best served by another adviser. Once again, making sure that you only deal with clients who will get value from your advice at the fees you charge will not only build a quality business with long-term client relationships, but will also minimise the risk of complaints and bad debtors.

Take a fresh look at your business through the eyes of a new client. Do you present yourself and explain your services in such a way that they will be happy to pay your fees? Will they get an understanding of the value you will provide to them?

Many advisers have found that over the past 10 years, their processes and documentation have had to evolve in order to remain compliant, and this has often been detrimental to the client experience. Their promotional and explanatory material, which used to be client-friendly, has been replaced with an FSG.

Trying to use your FSG as a replacement for a corporate brochure is akin to trying to drive to work in a race car complete with roll cage and all of the safety gear—it might work but it is cumbersome and uncomfortable. If you send prospective clients only your FSG as a means of introducing yourself, they will have to sift through technical jargon and information they may not need in order to try to get a sense of who you are and whether you have what they’re looking for.

Of course, we’re not suggesting that you cease using your FSG—the information contained within it and the role it plays are very important. However, having seen many FSGs, we know that their purpose—to help people select a financial planner—is often lost within a mountain of information.

Revisit your FSG as though you are a new client who has been referred to your business. Does it need a complete overhaul to mix personality with functionality or are you better off keeping your FSG concise and official, and direct people to your website or create an additional corporate brochure that is designed as promotional material? You can send this brochure to new enquirers before they meet with you, and it could double as promotional literature that your centres of influence and existing clients can pass on to people they refer to you.

You will want your promotional material to include your CVP, information on your philosophies and how you assist people with their finances. It should not be a list of

products on which you are licensed to advise, though it may include information on the types of scenarios you deal with, and even the process that you will take your new clients through.

When was the last time you reviewed the information contained on your website? We've seen great success for advisers who use a combination of text and video on their site to help clients do their due diligence before they meet. Video footage is a great way for people to hear directly from you, information about your firm, your philosophies, how you work, and to make an immediate connection by hearing about why you love doing what you do.

And don't underestimate the power of the third party endorsement—no-one has more credibility when promoting your services than your existing clients! If you use video on your website, the most powerful endorsement can be a video of your existing client(s), sharing their story. It needn't even be an outright testimonial—the fact that they're sharing their success on your website implies that you were instrumental in achieving that success and they're happy to endorse you.

You can also collect some written testimonials from your clients, and showcase them all on your website—you may only have room in your brochure to include an edited version but your website can house their full testimonials. It's a great chance for prospective clients to hear your existing clients waxing lyrical about how fabulous you are.

The art of winning new clients is all in the timing.

Once you have provided the right introduction to the client by way of the information you send them and what's on your website, the timing of how you provide advice to them and when you present your fee is also vitally important.

The Paradox of Communication

Sometimes the direct route isn't the fastest.

Selling your services as a financial adviser and, more importantly, actually providing advice to clients is all about communication. The problem is that when it comes to financial advice, people have a lot to absorb when they meet with their planner, so there is an art to the timing of your communication.

This is especially so when they are learning new things, and dealing with something as emotional as their money and its impact on their hopes and dreams. You could

tell two people exactly the same thing and they would process it differently, based on how you tell them, their pre-existing knowledge of the subject, what else is on their mind at the time, and many other factors.

The timing of when to detail your fee to a new client is important—too early and they'll decide on cost not value; too late and you'll run the risk of doing an awful lot of work without getting paid.

We discussed earlier the possibility of providing only a range of fees in your FSG and when your people call to make an initial enquiry. In this way you meet your compliance obligations and get rid of any tyre kickers who are angling for cheap or free advice.

In the context of engaging a new client, you will probably have much greater success if you discuss your fees in detail *after* spending your first meeting getting to know them and giving them an idea of your personality and professionalism. You should avoid telling them what your fees are, prior to telling them what your fees do.

You should be clear that your engagement fee provides access to your intellectual property and your advice on how to structure and manage their finances in order to allow them to achieve their objectives.

Your ongoing fee gives them your support and accountability to ensure that they keep doing the right things regardless of what life throws at them, or what happens with legislative reform and economic fluctuations.

Detailing your engagement fee *after* your first meeting allows the client to gain some sense of the value of your fee. Detailing your ongoing fees and corresponding service package after you have spent time together to create and understand their financial plan will allow them to make an informed decision on whether they require ongoing services.

If you commence work for the client and create their financial plan before reaching agreement on your engagement fee, you are missing your opportunity to obtain their approval at their critical moment of need. You are also opening yourself up to disputes at a later time.

Once you know what is involved in a client's affairs, and can demonstrate that your advice will add value to their life, you have nothing to hide—boldly quote your engagement fee and expect that the client will be happy to pay it.

Selling Your Ongoing Fees

By the time you have completed your thorough process to bring on a new client, they should have no hesitation in signing your client service agreement and engaging you for the long term.

When working with new clients, you should either add some qualitative questions to your fact find or else ask them in your first meeting. These questions should cover areas such as:

- What would you like to achieve from having a financial adviser?
- What are your expectations of working with a financial adviser—how often we will meet, what we will do for you, etc?
- What experience have you had with financial advice in the past?

The information you gain from this conversation will not only allow you some greater clarity around what to build into your ongoing fee, it will also allow you to understand your clients' expectations, so that you can either modify them or meet them.

Don't forget that while in the past you may have created service models that were dictated by the amount of commission you earned from a client, now you can define what services the client needs, and then determine their fees to suit.

Client Service Agreements

In order to complete Chapter 13, you needed to develop a client service matrix. To aid in the sales process, you should convert this table into a documented service offering that is written in language appropriate for your clients—more of a descriptive explanation than your in-house summaries.

You may create a document that serves as a menu of ongoing services, with descriptions and suggested frequency, or you may have a separate document for each of the packages on your list.

Make the effort to lay out this document so that it is visually appealing, carries your branding and allows clients to read through and understand all of the things that you will do for them in the coming year. You could even have laminated copies of each, and keep them handy in meetings so that you can select the appropriate service offering and talk it through with your clients.

Once the client agrees to your ongoing service package, the information should be inserted into your Client Service Agreement. The client and adviser should both sign

this, acknowledging the terms on which they will work together, as outlined at the point of signing the SOA.

Make sure that you also include the responsibilities of the client in the agreement, such as that they will be open and honest with you, and will let you know of any substantive changes in their situation, etc.

Your service agreement can be included in your SOA, or it can be a stand-alone document.

CHAPTER SEVENTEEN
SELLING YOUR FEES PART TWO—PRACTICE

Having revisited your process, now let's work on the practice—or the art of communicating your fees.

Now that you have created your new fee model, it is important to take the final step in the process, and look closely at how you will sell your fees to your clients—both new and existing.

Before we get into the details, we're going to make some assumptions. We will assume that you provide excellent quality advice to your clients, that you are educated, and you stay up-to-date with changes both in legislation and in your clients' affairs. In addition, we'll assume that you have effective systems in place to ensure that your clients gain access to your advice in a timely manner, and will get what they pay for—and can afford the fees they're paying.

Regardless of whether you service high net worth clients, or middle income earners—sports stars or soccer mums—you deliver excellent financial advice that is of high quality and provides a tangible benefit in your clients' lives.

If you read those three sentences thinking we were discussing someone else, then I urge you to either improve your skills or get out of the industry. If you need assistance with structuring your advice offering and your processes and procedures, either ask your licensee's PDM for assistance, or contact Elixir Consulting, which has people who can help you with that.

UNTOUCHABLE SERVICE

We're talking about intangible services here. When deciding whether to pay more money to buy a nicer car, you can touch it—you hear the roar of the engine, smell the leather, take it for a test drive and see how it feels to drive it. However, with financial advice, your prospective clients won't know just how good your advice is until some time down the track. Even when they get their initial SOA for their financial plan, they won't know whether you've selected the very best strategies for them, or if you've optimised the numbers in the best way possible. So how do they decide which financial planner to engage? Do they go with the cheapest one? Perhaps. The most expensive? Maybe.

Whilst the answers to those questions will depend upon the individual involved, the fact remains that next to family, money is one of the most important things in most people's lives—they want to protect it, get it right, to make sure that it can provide them with what makes them happy. That's not to say that people will pay an unlimited amount for advice, but they are less likely to take the cheapest option, and far more likely to select the best quality they can afford.

We all seem to be born with a few concepts built into our psyches, such as: 'you get what you pay for'; 'nothing in life comes free'; and sometimes, 'if something is expensive it must be valuable.'

Your key will be setting your services and pricing model at a level that your ideal clients will engage with.

Competing on price shouldn't even enter into your thought processes, unless you offer a commoditised service that provides products to customers. The nature of a true relationship between a financial planner and their client is highly personal, and your clients should consider it worth paying for.

Discounting Your Fees

When selecting the ongoing service model that your client requires, you should not entertain the idea of discounting your fees—regardless of whether you select the service level, or you allow them to choose.

If a client asks you to discount your fees, respond by asking them which services they would like to drop out of their service package. If they truly cannot see value in the ongoing fee (assuming you have already demonstrated that they can afford you), then offer to drop them down to a lower service package.

But your fees are what they are—in order for you to maintain the integrity and quality of your advice, you do not provide discounts (other than for those clients who receive pro bono services, as dealt with in Chapter 7).

Value is in the Eye of the Beholder

It is true that clients paying fees are more likely to want to see value for the fees they are paying when compared to clients who receive advice that is paid for via commission—a price they do not directly feel.

Value will mean different things to different people and as we discussed in Chapter 6, once you have conducted your first meeting with a client, you should communicate with them to discover what they see as being valuable in this relationship—not just what you have laid out in your CVP.

You should never underestimate or take for granted, the value of what you do as a financial adviser. You probably enjoy what you do, and find it logical and maybe even easy, but to many people money is scary—numbers are scary. If you have the ability to make the numbers appear more simple for these clients, and to get the money working for them, you are doing them a great service. Other clients may have the capability to manage their own money but not the capacity—they're happy to outsource their financial management to you, as their time is better spent either earning the money you manage or enjoying it.

So here are a few thoughts to help you when positioning your advice and your fees to your clients:

Whilst you have probably spent more time in the past month thinking about how much to charge than you have in the previous decade, when you start discussing your fees with your clients, try to step outside of yourself and listen to your discussion through the ears of a client.

It is natural that when someone is asked to pay for something, they will want to see value for the money they are going to spend. Whilst this is true in transactional relationships—buying a car or a television—purchasing professional services is slightly different.

Your clients will care less about the dollar sum attached to your fees and more about the outcomes that your services will provide. However, if you discuss fees without discussing outcomes, you are forcing them to focus only on your cost, rather than your value.

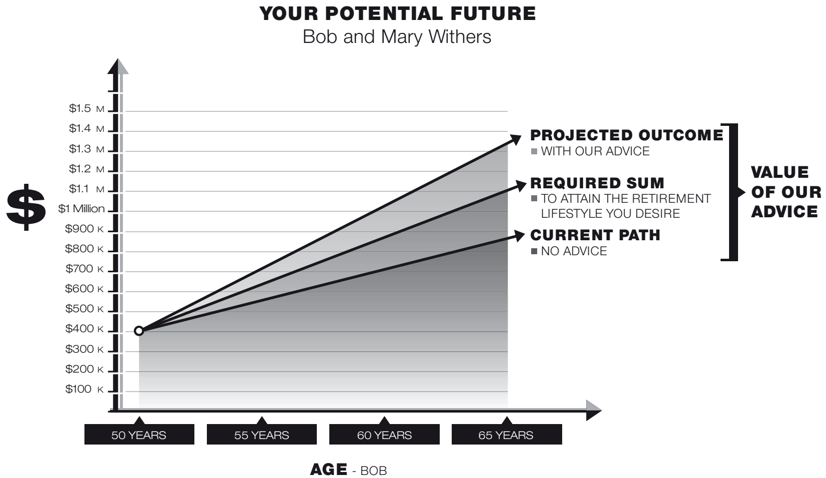
Clients are coming to you for solutions to their concerns—they want to make sure they can afford to retire when they choose to, they want to minimise the tax they're paying and maximise their investment returns. They want to own their home, mortgage free, by the age of 50; they want to fund their parents' retirement. These are the outcomes their fees are paying for, so ensure that you talk in their terms.

We are not suggesting that you should align your value with providing a promise of outstanding investment returns; rather you should make a promise to provide the client with what they are seeking, whether that is accountability to implement a savings plan, or the peace of mind that comes with knowing they can make informed, rational decisions about their investments in any economic climate.

A great way to demonstrate your value is to use modelling software to provide a graphic representation of your client's financial future. After gaining an understanding of their desired lifestyle before and after retirement, you will be able to calculate the total sum of money they need to accumulate before they retire. Using your planning software and a few simple inputs, you will be able to create a graph that visually represents their likely outcome if they continue doing what they're doing, and how that compares to where they need to be.

After determining your strategies, which will involve more detailed data, you should then be able to provide a graph that demonstrates the likely outcome if the client employs the strategies that you are suggesting—one would hope that the line then reaches or exceeds the figure that they should be aiming for. Be very clear that this line represents their likely outcomes *after your ongoing fees have been paid.*

Of course, you'll explain why the actual path won't be a straight line when you educate them about market movements and volatility, and that despite the fact that the line will in fact be a 'wiggly' one, the outcome will still be significantly greater than their current trajectory. Ultimately, the gap between their financial situation if they continue on their current path and where they might be if they engage you is a clear demonstration of your value. Then you can go on to discuss all of the intangible benefits they get along the way—someone to bounce ideas off, the peace of mind of having someone else do the worrying, knowing you're there to keep them on track when things change that are outside of their control.



Using these diagrams will help clients see that rather than being an expense they can't afford, in fact they can't afford not to engage you. The choice is simple—pay you and increase the likelihood of achieving their desired outcomes, or don't pay you and accept that they won't achieve their desired outcomes unless they change their actions in some other way.

Of course, if the graph shows that they are likely to reach their desired destination by continuing on their current path, there would have to be other reasons why they need your help, and these are usually not too difficult to determine when you actually meet with the client. It simply means a different conversation and a different explanation of your value.

By following the new client process we have outlined (on page 123), by the time you first detail your fees with a new client, you have already discussed the outcomes that they are seeking, and you have confirmed that there is sufficient likelihood of achieving those outcomes by engaging you.

Quantify the Outcomes of your Advice

To prevent buyer's remorse, improve client retention and increase referrals, when you prepare a client's SOA, get into the habit of clearly articulating and, wherever possible, quantifying the value of your advice. In the executive summary, straight after the summary of your recommendations, include a list of the likely outcomes of your advice. This will need to be tailored to each individual client, and should include specifics, not just generic standard text, for example:

By implementing our recommendations, you should achieve the following outcomes:

- Increase in Centrelink entitlements—$4,400 per year.
- Reduction in tax payable—$3,300 per year.
- Decrease in fees on your multiple superannuation accounts—$735 per year
- Government co-contribution—$460.
- Peace of mind, knowing that should Bob pass away, Mary will have an advice team in her corner helping her manage her financial affairs—priceless.

Show Your Clients That They Can Afford You!

It is part of your role as a financial adviser to advise your clients on the most cost-effective and tax-effective place to source the funds to pay your fees. Let them know what funds they should use to pay your fees, whether it's their super fund, their investment returns, their personal exertion income, and account for this if you are modelling cash flows in your SOA. Also make it clear to your clients that whenever you quote returns in your discussions, that you will be quoting in net terms—that is, after their advice and portfolio management fees have been deducted.

When you're discussing your service model, explain that your ongoing fees do not just pay for the time that the client spends with you in person or on the phone—there is an awful lot more that you do behind the scenes that they don't see. You stay on top of legislative issues that may affect them; you keep an eye on the markets and the economy; you might regularly rebalance their portfolio; you will be watching the markets and getting in touch when it is appropriate to act on their direct share portfolio. There are many more possibilities.

If you only enumerate the face-to-face services that you provide, you are encouraging clients to assume that their fees are only paying for the time that they spend with you, which does not take into account the additional work that happens behind the scenes, to manage their affairs.

Explaining Flat Fees

If you are charging flat fees, there are other ways to show the value. You may discuss what the fee represents as a percentage of the client's total assets. When you provide truly holistic advice, a client would be justified in thinking of your fee relative to their entire portfolio—including property—as you assist them with their total asset allocation and cash flows.

You will usually find this is zero-point-something per cent. Put it in perspective against a real estate agent, who earns 2–3% if they sell your house, or a solicitor who charges you a fee that has no relation to the outcome, and suddenly your fee doesn't sound

as expensive. You may also explain your fee in terms of the weekly or monthly amount where it is more affordable compared to other household expenses such as their mobile phone bill, the lease payments on their car, or what they spend on private health insurance. You should help your clients make a rational buying decision about paying for advice in the context of the other financial decisions they have made.

For some clients you may choose to compare it to lifestyle expenses that they choose to treat themselves to, such as dining out, cable TV, holidays or fancy cars. By doing this, you are indicating that if they have the capacity to spend on luxury items, they should invest in something that will increase their likelihood of continuing to be able to afford those luxuries. Alternatively, by comparing the cost of advice to the cost of other 'necessities', such as private health insurance, telephone and internet, you are creating the assumption that financial advice should be considered a necessity in the same vein.

You get paid not only to source and manage their investments, but to do so in a cost-effective manner. You know what you are looking at when analysing the costs of an investment and you are in the best position to make a judgement call as to what is worth paying for.

Position your fee in context—what are the total costs that the client will pay for their portfolio? Depending on how you construct your client portfolios, you may be able to demonstrate that you have earned your fee from the reduction of administration and asset-management costs alone.

Collection Method

As stated numerous times throughout this book, the collection method for how you get paid does not necessarily have to change as you move away from commissions. You should still ensure that your clients pay their fees in the most cost-effective and tax-effective manner available to them. This should also be done in the most simple and painless manner both for the client and your business.

It will usually be more convenient for your clients if you collect fees from their investment or super accounts, or via regular direct debits from their bank account, rather than by invoicing and insisting that the client pay lump sums for your services.

CHAPTER EIGHTEEN
IMPLEMENTING YOUR FEE MODEL

Congratulations! You have created your new fee model. But now it is important to take the final step in the process; you must examine how you will roll it out across your business. Whilst the exercise you have just completed has no doubt been challenging, the real challenges will be implementing your new fee structure and selling it to your clients.

Regardless of whether you are completely comfortable with your new fees, or are experiencing some trepidation, it is important to structure your processes, and build some techniques that will allow you to communicate the value of your advice offering.

As we discussed in Chapter 15, you may have some doubts about charging fees for your advice, especially if you have discovered you've been charging too little.

It's not unusual to be nervous about something new and many advisers have fears when they start charging fees; but rest assured that the biggest obstacle will be between your ears.

Provided that you communicate your fees and the value of your advice well, you should have no problem in continuing to make your living from financial advice. The fact is that although it may be foreign to you, there are many advisers who have been charging fees for years, and they enjoy profitable, healthy relationships with their clients.

That said, you need to be convinced you have the right model before starting to present it to your clients. Make sure that you are confident in charging your fee prior to putting it in front of a client. If you think it is expensive, the client certainly will too!

Having followed the processes in this book, you now have the ability to charge your clients the appropriate fees for the advice that they need. It is possible that your next five clients will all be charged different fees to engage you. This is logical, since no two clients will need identical financial plans. While you may use similar strategies for many clients, your advice will be tailored to suit each client's individual needs.

This does make it difficult to tell a client what your fees are prior to the conclusion of your first meeting as you really won't know what they will pay until you have a better idea of what their needs are.

Converting existing clients onto new fee model

Let's think about what to do with your existing clients. While you won't be able to accept investment commissions for your new clients, the grandfathering rules for certain conflicted remuneration may mean that you are not forced to stop receiving commissions for existing clients.

However, now that you've been through this exercise, you may have discovered that your existing structure means that you're not charging your existing clients enough for the services you provide.

We urge you to remove your reliance on your trail book of income, take back control of your business, and manage your client relationships on your terms.

For many advisers, the biggest fear in changing their pricing model is how it will affect existing clients. This is especially so if they discover they need to charge them more than they have in the past. Our research showed that this fear is largely unfounded.

We suggest that you practise your fee discussion with a few new clients to build your confidence before you roll it out to your existing clients. However, set yourself some rules around this—perhaps wait only until you have successfully engaged three new

clients using your new fee structure before you introduce it to your existing clients. Otherwise you may find yourself delaying indefinitely.

You should also rehearse the conversations you will have with existing clients, and decide how you will explain this change in fee structure, prior to actually introducing it to any of them. Wherever possible, role-play your discussions with other advisers in the practice or with your business coach, so that you can explain it in an acceptable way, and also get some practise at countering objections.

You can start by looking at what your new fee model will mean for some of your existing clients. Select at least one client from each of your segments, work out what they will pay on your new pricing model, and see how that compares to what they are paying you now.

You may find that the minimum fee will be less than your best clients are currently paying, similar to what the mid-level is used to, and much more than your lower end clients have ever paid.

Do not forget that your fee schedule allows you to build in amounts for complexity and for value. If your best clients are happy with what they are paying you, it makes no sense to reduce this amount—this is where you build in the value overlay. They believe you are worth the price they are already paying.

If your revenue from these clients is in the form of commissions, it is still worth having the conversation with them and converting them onto your new fee structure. They read the news and if they are great clients for you, you should expect that someone else may identify them as great potential clients and approach them on the basis of removing their existing adviser—you—'who must be out of touch because they're still paid commissions'.

Truth or not, don't underestimate the power of this type of negative marketing—especially with a subject as emotional as money and a client's future security. Combine the plethora of negative press about adviser commissions with an adviser suggesting that your advice may not be in their best interest, and your best clients may indeed be convinced that it's time to change their adviser.

Clients who will not see an increase in the amount they pay under your new fee structure are clearly going to be the easiest conversations you have. However, think very carefully before you set the fees for these clients. If a significant proportion of your cashflow is earned by commissions on your legacy book, run some figures on what

will happen to your business if a large number of these people shift their money into lower cost funds, or sign over to another adviser who will rebate their commissions.

If you do not have a ready source of new clients to counteract the loss of those legacy clients, you may need to ensure that all of your ‘real’ clients pay at least some level of increased fees.

You don’t have to do this overnight; you can transition your business to fees over a 12 month period. Don’t make appointments for existing clients to come in just to talk about increasing your fees. Rather, you should wait until they are due for their next review, and build it into the agenda of that meeting.

If you have provided a mainly reactive service until now, you may find that some of your clients have not been in for a review for some time. If this is the case, you will likely find it most effective to treat them almost like new clients.

Explain that it is important for you to update your information in line with what is currently happening in their lives, and discuss their goals and objectives all over again. Talk about what you feel they really need now in terms of the advice relationship. If they require more hands-on advice to achieve their goals, it is timely to re-address their service level—and also the fee they need to pay.

By doing this, you can reinforce the client’s understanding of the value of your advice, explain that your new business process and fee structure will provide them with a better opportunity to achieve their outcomes, and effectively sell them the need for financial advice all over again.

With the tail end clients—those who may have only received reactive service to date and who will definitely need to pay more on your new fee model, your implementation process will largely depend upon the resources you have in the business. If you have advisers with available time, you may select a list of clients for them to contact, bring in for review, and offer your new service package and pricing.

The selection criteria for these clients may be quantitative—you might want to start with those who already pay the closest to your minimum fee—or you could use qualitative measures, such as their age or stage of life, to select those who best fit your preferred clientele.

If you have a huge trail book, you will, without a doubt, discover that only a portion of those clients are prepared to start paying you a fee for your advice.

This might sound scary—no one wants to lose a customer (or a client!)—but in reality, you only want to work with people who want to work with you. And these people—the genuine clients—will pay more for your advice than you ever earned from your customers. It's quite likely that you will find you can make the same amount of money from half—maybe even a third—of your current client base, meaning that you will be able to spend more time with each client, enjoy more meaningful relationships, and probably give them better financial advice.

If you do not have under-utilised resources in your business, then it may be preferable to 'let sleeping dogs lie', and leave your 'tail end' clients on their current structure. At the time of going to print, there is nothing in law that will force your trail commissions to be switched off. Note that our suggestion here only refers to your customers who receive reactive service, not your true *clients* that you wish to retain for the long-term. Invest the effort to convert your *clients* to fees in order to counter-balance any attrition in your trail revenue from *customers* who choose to move their funds elsewhere.

Even if you lose some clients, that doesn't mean you have to start charging those who remain twice as much for the services they're already getting. By re-engaging them, these clients will partake in more services than you provide them with now, and you will start to enjoy the benefits of the momentum that creates.

When you are ready to start rolling out your new fee model to your existing clients, begin by segmenting your client base on revenue.

Select five clients who fit in your middle band and are due to have their reviews in the next month. Not your best, not your worst. Those who you are not petrified of losing. Apply your new fee structure against these clients and see what the outcome is.

For each of these clients, work out how you are going to have the conversation about their new fees.

Once you have had your discussions with these clients, and refined your conversation, you should be ready to start implementing your new fee model across your whole business.

Prior to each review meeting, run a report to determine the amount of revenue that you earned from that client in the previous few years. It's a good idea to get three years' data where possible, to show an average over time.

If you are having this conversation at a time when your income has decreased due to

market movements, you can discuss this in light of the fact that your services have likely increased over that time.

Start by discussing your fees in terms of value and their comparison against the cost of living and the cost of running a business. It should not surprise your clients that the cost of running your business has increased since you first set their fee, not only in terms of compliance costs, but also through overheads, staff wages and more.

If you need to increase a client's fee, ensure that you discuss this in terms of the outcomes that your advice has achieved in the past, and what it is likely to provide in future.

As much as it justifies increased fees, your clients will care less about what it costs you to run your business, and more about the impact that your fee will have on the achievement of their own objectives.

Just as you will with new clients, quantify the value of your advice and position your fee in relation to this. Again, show them that they can afford you and that your advice and support are worth it. You can even point out that they have really been receiving your services at a discount in recent times.

Some advisers have reported success by taking a phase-in approach with any existing clients who will have to pay substantially higher fees. So, perhaps for anyone who will have to pay more than 30% on last year, you may apply 50% of your fee increase for twelve months, and then lift them to where their fee should be at their following annual review.

Remember that your existing clients will hear about the legislative changes to commission payments and be subjected to a raft of negative sentiment around commission-based advice in the media. It may be worth taking positive action to counter this, notifying your clients by way of a personalised communication, or through an article in your newsletter, that you are changing your remuneration structure. Explain why you are making these changes, reinforce your commitment to professionalism, and let your clients know that you will discuss and implement the new fees with each client at their next review.

In this way, clients who may not be reviewed in the coming few months will at least be informed that you are making positive changes in the area but they will also be reassured that nothing will change without their consent.

Checklist for implementation

You now have your new fee structure, and your action plan on how you will implement it. Here is a checklist for the tools and documents that you may need to implement your new pricing model effectively:

- Marketing materials—as discussed, you may need to update and improve your marketing. Make sure that your website and any new brochures you create demonstrate the tone of your business and communicate with your preferred clientele at the right level. This refers both to the language used and the quality of the materials employed to create your brochure. There is a huge difference in what is said by a photocopied brochure and one that is professionally printed.

You will also need these documents:

- Fee schedules—for engagement and ongoing fees.
- Fee calculator—if you have chosen to turn your fee schedules into an Excel spreadsheet to be used to calculate the fee for each client.
- Letter of engagement—for new clients to sign, accepting your engagement fee and acknowledging the scope of the financial plan you will create.
- Client service packages—client-friendly documents that set out what is provided at each level of your ongoing service packages.
- Client service agreement—your client service package documented in the form of an agreement which sets out what is expected both of the client and the adviser in the ongoing advice relationship. Clients sign this document to accept your ongoing fee.
- Report of income earned per client—you will need to have access to this data in order to compare the total remuneration received from a client historically, with earnings from their proposed new fee.

If you feel you need additional assistance from a business coach or practice development consultant, please contact Elixir Consulting and discuss our services.

Our *Pricing Advice*™ program is available as a self-paced online program, or as an assisted program that includes the services of a business coach to help you with the evolution of your business. It also carries a range of support tools, including the ability to benchmark your fees against others in the program, and calculators that allow you to examine multiple scenarios to stress-test your fee model under varying business conditions. Our online program has become an invaluable piece of software in hundreds of advice practices, that is revisited each year to ensure their pricing model stays current with the changing costs of running a business.

I wish you the best of luck in your pricing journey, and invite you to provide us with feedback on your thoughts and successes along the way. Please feel free to email me at sue@elixirconsulting.com.au

Visit www.elixirconsulting.com.au to access other resources to assist you with pricing your advice:

- Adviser Pricing Models Research Report second edition
- Pricing Advice online program
- Business Evolution Program—our 6 month coaching program to evolve your pricing model
- Pricing Masterclasses—one day workshops to fine-tune your pricing
- Prac-Nav business coaching program for financial advice professionals

We also have a range of tools and templates designed to assist you to improve your clients' experience, and we frequently add articles to our blog to address many issues and challenges that arise in the profession of financial advice.

While there is no one-size-fits-all pricing model that suits every financial advice business, there *is* a proven methodology to create a pricing model tailored specifically for your business and your clients.

Pricing your services effectively is one of the most critical factors in the success of any business, and pricing advisory services can be particularly difficult. Written by Australia's preeminent expert on Pricing Advice, this book has already helped thousands of advisers to get their pricing right, and this revised edition will provide the insights you need to effectively price in today's regulatory environment.

Whether you're thinking 'Where do I start?' or 'We've been doing this for a while now but could do with some help working out the kinks', this book will help you to:

- ***Decide which pricing structure is right for your business,***
- ***Determine how, when and how much to charge - for all financial advice, including insurance advice,***
- ***Implement your new fee model, and sell it to your new and existing clients.***

This process is robust, well-tested and easy to follow, and it works for any business regardless of their size or scope.

"A triumph and a must read for every financial adviser."
David Penglase, Director, SalesCoachCentral.com, Sydney.

"This book will arm you with the knowledge and insight to enable you to improve and refine your financial advice pricing model and value proposition. Even if you think you have it right, I suggest making the small investment in this book, it will pay dividends."
Baz Gardner, Founder and Principal, The Social Adviser, Brisbane.

"Sue's passion to assist advisers in transitioning their fee models is unrivalled in our industry."
Kristine Wade, Head of Retail Sales - Life and Investments, Zurich Financial Services Australia.

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ISBN 978-0-9923471-1-6