

# Transition to fee-for-service: part 1

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## Taking the first step

This is the first in our series of transition to fee-for-service features where we'll be discussing how to, when to and whether to transition your business. Each issue we will be discussing the various steps in the transition process as outlined in the graphic below. We'll be interviewing members who have been through the transition process and our expert members will also be answering your questions.

Our focus is on helping our members to transition to fee-for-service by 2012, however we recognise that not all of our members will be choosing to take this journey and so we'll also be looking at alternatives to transitioning. Considering how and whether to transition your business is not easy. The time and resources required will depend on the current structure of your business. As a guide we've created a six-step model that shows a transition over a 12-month period. Addressing each step will prepare you to take on the next step in the model. This month we speak to several members about the first step in that model – STRATEGISE.

## Your transition questions answered

*The FPA welcomes questions from members regarding the practicalities of how to transition a financial planning practice to a fee-for-service model. In this edition, Dante De Gori and Sue Viskovic address issues raised recently by FPA members.*

**Question: What are financial planning firms generally charging both on an upfront and ongoing basis using a flat, dollar-based fee approach (instead of an asset-based percentage)? My concern is that client resistance to dollar-based annual fees will be greater than asset-based fees. I know this will ultimately depend on the service offering, but a general real-life indication from planners already successfully doing this would be extremely helpful.**

Sue Viskovic: Having researched 120 practices around Australia and having worked with many more over the past 12 months, I can tell you that the quantum of fees will vary with the location of the business, the service they offer and the style of client they work with. A city-based firm will generally charge more than a regional firm, and fees increase with client complexity, level of wealth, and to a large degree, the confidence of the planner providing the services. It is very difficult to provide averages, so I will respond in terms of where a flat fee model might start.

I have yet to see many firms that can afford to charge less than \$2,500 in upfront fees (plan and implementation) for a comprehensive plan (\$3,500 tends to be the more common minimum), and the bare minimum for an ongoing service package that entails one review for a very simple client would be \$1,200 per annum. An average ongoing fee for a client requiring one review meeting, with modest investments in a 'low-touch' portfolio (that is, no direct equities, no SMSF, no gearing and so on), tends to be more like \$2,000+ per annum. \$5,000 per annum would be the mid-range, and for clients with less than \$1 million of investment assets, \$15,000 per annum would be towards the top end, for a comprehensive service with considerable complexity.

I can tell you with absolute conviction that in reality, a client's resistance to a flat fee versus an asset-based fee will be a direct reflection of the views of the planner. When you get your conversation right, it is in fact easier to 'sell' a flat fee as the value of your advice and the fees associated with it are directly related to what you are going to do for the client and what you will help them achieve, as opposed to what they have already obtained in assets prior to meeting you.

*Sue Viskovic is the managing director of Elixir Consulting and author of 'Pricing Advice – creating the right fee model for your financial planning business'. Please note these opinions are those of the author only, and do not necessarily represent the view of the FPA. If you can help this member by providing information about how you have structured your pricing, please submit your responses via the Transition section of the FPA website at [www.fpa.asn.au](http://www.fpa.asn.au).*

**Question: When a client goes to another financial planner with an existing product that cannot deduct fees, how is the client going to be able to have the agreed fee deducted from the product if that is their preference?**

Dante De Gori: We expect to hear more detail from the government to answer this type of question as part of the consultation process. Our present understanding is that if the new planner is advising on the existing product – as in a recommendation to hold, then this will become a new customer arrangement for the incoming licensee and/or new planner. The government has said its 'opt-in' renewal proposals apply to 'new products for existing customers or new customers with existing products'. So if the legacy product doesn't allow fees to be deducted, we would expect that licensees will need to permit alternative arrangements to enable you to charge a fee direct to the client for your services, and consider directing the client to one of the web-based fee rebate services so they can get the trail rebated.

*Dante De Gori is general manager, policy and government relations, FPA.*

*If you have questions regarding transitioning, please submit them via the Transition section of the FPA website at [www.fpa.asn.au](http://www.fpa.asn.au).*

## Planning a transition strategy

The first step towards transitioning to fee-for-service is devising a strategy. Some financial planning practitioners who have successfully made the transition have shared their insights on how they reached their strategy.

Lisa Weissel CFP®

Authorised Representative, Count Financial Limited and Senior Adviser, Evergreen Wealth Professionals

Lisa is a senior planner with over 10 years' experience in the financial planning profession, with her expertise directed to providing strategic lifestyle solutions.

Rhonda McKenzie CFP®

Principal, Planning for Life

Rhonda has worked in the financial services industry as a financial planner since 1989. Prior to this, she managed a sales force, and has been an elected City Councillor and Deputy Mayor.

Michelle Tate-Lovely CFP®

Director and Representative of Unified Financial Services

Michelle has also been a financial planner since 1989, working with various privately owned firms before establishing Unified Financial Services in 1994. She specialises in providing financial advice to senior allied health professionals.

## What type of business do you operate?

LW: We charge on a fee-for-service basis with a hybrid methodology for payments, or as negotiated with the client. This includes a service-linked fee and an investment-linked fee, depending on what the client wants. We find this works especially well for those clients with employer superannuation or government super, where they need the structure and strategy advice, but have no actual investments for us to manage on their behalf.

RM: We run a fee for advice business.

MT: We focus on building a financial life plan and providing ongoing support to help our clients to implement their plan and achieve their goals. Our clients are looking for direction, guidance and a sounding board to make informed financial decisions. The placing of investments is only one aspect of our service.

**What were the factors leading to your decision to transition, and how long did it take you to make this decision?**

LW: We made the move to a fee-for-service style business when we realised that the future of good value financial planning was in strategy, not product, around 12 years ago. Since then we have tried out several pricing models and settled on the 'hybrid' version, to provide protection for both the client and the business. It also allows us to service DIY investors and Generation Y who prefer to do what they can for themselves.

MT: We have, for many years, been charging a fee for our first meetings with clients and for our financial life plans. When FSR was introduced, it was a challenging time as it forced us to review the business. We decided at this stage we would see fewer clients (and more of the ideal client) and do more for them than try to be everything to everyone. Prior to the GFC, we developed a professional services pricing model. This made good business sense to us, rather than have a lack of control over revenue and having it dependent on a client's investment portfolio. This was especially clear due to the type of advice our health industry clients were looking for, including salary packaging, defined fund options, and lifelong cashflows.

**Did you have any initial reservations about making this change?**

LW: Not really – it just made sense given the types of clients we looked after and especially when we looked at providing advice for their children. Finding the right pricing model was more of a challenge than making the switch.

RM: As a business, we had no reservations about making the change.

MT: Yes, we did not believe all clients could afford to pay our fee upfront, so instead of only charging an invoiced fee that clients needed to pay from their cashflow, we offered choice. Our fee structure therefore centres on outlining the billing schedule to the client, and then the client elects their payment method – whether that be invoice from a bank account, or a flat fee through a portfolio, or a combination. At first, we undercharged because of our reservations, and only with experience have we professionalised the basis of our fees, basing it not only on cost of service plus profit margin but also intangible and tangible value of advice. We are still working on this.

**Did you encounter any opposition from your partners or staff when you first broached the subject?**

LW: As a smaller business with only four partners, all directly involved with the business, this was a decision we came to together. How to structure the pricing model and the impact this might have on the cashflow of the business was more of a talking point.

RM: Our team did not oppose the change to fee-for-service.

MT: Communication and engaging the staff to be with you on the journey of re-engineering the business is key. Our staff were on board from the beginning, as they all understood what it is we do for our clients. Our values were aligned, and our staff were involved in the building of the service offering and pricing model. It does present more work for staff as we strive to be a better practice and to provide a great experience for our clients.

**How did you choose a fee model for your business and what factors did you consider when determining this structure?**

LW: We looked initially at charging an investment-linked fee only, but soon discovered that this was a problem if the client had no investments held under management. We then looked at using a pure service-linked fee with a flat dollar value. The downside to this is that we quickly priced out the Gen X and Y clients that we were trying to attract. Through discussion with some of our clients and staff, we developed the 'hybrid', where a client pays a service-linked flat dollar fee for the strategic advice and pays a small asset/investment-linked fee against any investments we manage for investment services and advice. This allows the best of both worlds without tying our total revenue to investment markets, which we cannot control.

RM: Our fee model is constantly being reviewed and adapted as our business grows and the market evolves. We are currently assessing the viability and practicalities of moving towards a fixed ongoing fee structure and evaluating the suitability of different fixed fee approaches. Considerable work has been undertaken to document and detail our service offer to clients, and to understand the time commitment and the direct and indirect costs involved in delivering this. This approach, combined with an evaluation of the value we deliver to clients, has formed the basis of decisions relating to the commercial viability of different fee models for our business.

MT: Initially we focused a lot on time spent, and then developed an operating rate for the business. We are now focusing more on the value of advice provided, which is more difficult to account for. We feel it's a mix of both time and value-add (tangible and intangible value-add). As such, we clearly list the tangible benefits of our advice in our financial life plan, such as how advice has saved a certain amount of capital gains tax, for example.

**What were the aspects of your business that had to change at the same time you changed your fee structure?**

LW: Primarily our ongoing service agreement and how we delivered our services. We determined what services our preferred type of clients valued and how best to deliver these. We then conducted a 'cost to serve' analysis. From that, we were able to present a service offering that was affordable, of value to the client, and still provided profit to the business. How we then presented this to existing clients became the next challenge, but as we had kept them informed throughout the process, we experienced no loss of clients or staff and rolled out the new packages across the normal 12-month review process. We have used this same methodology as we changed pricing models over the years.

RM: As our fee model has evolved, we have also reviewed the segmentation of our client base to ensure there is a link between service offer and fee structure and to ensure that not only are we acting in the best interests of our clients, but that this relationship is also commercial.

MT: We had to become better at keeping track of the amount of work we were doing for clients, and at communicating what the service includes, what comes at an additional cost, what our expectations of the client are and what they can expect from us. We are still working on this.

**Did the transition form part of a larger long-term plan for your business?**

LW: Yes, we were looking to move away from 'principal dependency' and develop a more corporatised model. This has now been achieved and allows flexibility for the partners to fulfil family commitments and take holidays without detriment to the business revenue or client needs.

RM: Yes, it was part of a much larger long-term business vision and plan, which covered all aspects of client management, business development and business operations.

MT: The business has always had a plan, which is regularly reviewed and matches our values and where we see the industry heading. We knew that to stay in business and grow, we needed to be ahead of the game when it came to transparent pricing and a quality fee-for-service offering, not based on investment/insurance product sales. It is what consumers want. We have also found our referrals from professional associates such as lawyers and accountants have increased.

Did you seek any advice on transitioning?

LW: The most valuable contributions to our transition discussions came from workshops with our peers, conducted by both our licensee and Jim Stackpool. The different ideas and tools that came out of those sessions provided the backbone of our discussions in the office and helped frame our current advice model and fee structure.

RM: We have engaged business consultants along the way to inform our decision-making. The process has been extremely valuable in opening up our eyes in terms of the approaches available and how best to transition our existing clients to our new fee model.

MT: We sought advice from consultants, associates and small dealer networks. We also sought out fee-for-service practices, and implemented an advisory panel for the business. I have had a personal life and business coach for years, which has helped bring it all together.

**If you had to transition again, are there any strategic aspects you would consider this time?**

LW: I would do a complete SWOT analysis of each of the different fee models to see which would best suit our business. In doing so, I believe we would have moved straight to our current model, rather than trying three others. However, the experience has been worthwhile and certainly the GFC has had little impact on our business revenue.

RM: The key message to anyone transitioning to a new fee model is do your research, clearly define your service model, evaluate the cost associated with delivering this service model and determine an approach that is not only competitive but fair to the client. The most important aspect is that you need to ensure that your whole team firmly understands and believes in the approach.

MT: Determine the ideal client first and build the service and pricing around them. If there are different ideal client scenarios, don't try to fit them in the same service offering box – we tried to fit everyone in a coaching service, where some clients just needed a financial plan or maybe project work. Cost the different service offerings on an annual basis and just don't stop! It is a great opportunity to have the best financial planning practice you can.

**Case study: Defining and implementing a transition strategy**

Nick Pantu CFP® and his business partners have successfully transformed Prime Time Financial Counsellors, based in metropolitan Melbourne, into a fee-for-service business. A member of the FPA Financial Planner Remuneration Transition Taskforce, Pantu shares his first-hand experience of the transformation process for the benefit of his fellow members.

### **Preparing for change**

Our initial move to a fee-based business was instigated by developing our customer value proposition (CVP), which forced us to look at all aspects of our business, from investment philosophy to business plan. It took us approximately 18 months from the time we first determined that we wanted to pursue the path to full implementation. Time gives you the flexibility to experiment with what works and what doesn't with your clients. Most businesses of our size need to have their principals continue to focus on servicing clients while you go through the change process. So starting early and taking your time means a more orderly process and ensures less disruption to your business.

You need to take the time to really understand your business before you start to implement any change. We spent six months analysing and modelling what we were doing. You also need to understand the costs in your business, and the extent to which a refocus on professional service may change those costs. We now place far more emphasis on strategic advice, and scoping out the advice to provide a cost-effective means to meet the client's goals and objectives.

Once you understand the value of the services you offer, and have analysed the costs of providing those services, you have a basis to determine what you need to be charging for your work. To correctly price your model, you need to include all costs associated with servicing the client, including a profit margin that reflects an appropriate return.

Then comes the hard part: you need to be confident that your clients will pay what you need to charge to run a viable business. We went through all the anxiety about driving clients away as we contemplated implementing the change, but now we wonder what we worried for.

### **Taking the next step**

We evaluated all our clients and then segmented them into four classes, not just on cost, but also on the value to the business (for example, good referrers), as well as how easy it was to work with them.

Our clients know what they are paying for, and how much, based on our CVP for each segment, and these are evaluated each year to ensure that we are remaining true to our model. We generally tell clients which package they need to adopt in order for us to deliver on their goals and objectives, and if they choose an alternative, how it may impact on the outcome. They receive the service they pay for based on the service package adopted.

Once you've segmented your clients, it is a matter of working through with each client how they will be impacted. Knowing what each client segment values gave us the confidence to position our service offering with them accordingly. It's fair to say that some clients did not realise they were already paying through commissions, and balked when fees were discussed at first. This was handled by walking them through our transition presentation, which explained the shift to fees and our new service offering. Others immediately gravitated to the new model as it was in line with that of other professionals. In the end, we lost about 6-10 clients.

It took about 12 months to transition most clients, working through the changes with them during the normal review cycle. About 5 per cent of our clients will probably never shift entirely to fee-for-service, and it is important to note the FPA Remuneration Policy does not force you to move clients in legacy arrangements – you should assess what is best for them. We now charge for our initial advice and Statement of Advice preparation – reflecting the hours of investigation and preparation costs incurred along with the intellectual property we possess and the value we are adding.

In terms of obstacles to transitioning, we found that some 'old' superannuation products held by clients could not be replaced without impacting them. CGT issues are a major obstacle and some products don't facilitate the ability to derive adviser service fees from them. But again, by allowing time to do the analysis, we found solutions for most of our clients.

I think it's worth considering involving an external consultant – they can save you time and effort through having access to tools and research to assist with analysis and exploring different business models. We used the MLC ThreeSixty transition team and engaged a consultant over a period of 12 months for a cost of \$10,000.

### **The benefits**

Financially, we were less profitable early in the transition process due to a number of factors such as consultancy fees, the GFC, and reducing some client fees when making the transition. Our valuation dropped for a year or two until our fee structure was fully implemented, but now we are on an EBIT model rather than a FUM multiple for business valuation purposes. Because we have a better foundation, and clients know what they are paying and what level of service they get in return, the business is now more saleable.

Some of the benefits include:

- Our clients see us as more professional, and they are engaged for the right reasons, as they understand our processes and procedures and are not focused on costs or what the account is earning.
- Staff see their roles as more client-centric, and the business overall is more process-capable.
- Meetings with clients are now more comfortable and transparent, as we can focus on the client and strategic advice, rather than product.
- As a business, we have a more consistent and robust financial situation that is structurally independent of product returns, and we no longer rely on product commissions for remuneration.
- It is easier to liaise with other fee-charging professionals.

To get to where we are today has taken a lot of hard work, time and effort. To anyone contemplating this change, you get out of it what you put in, but the rewards personally and professionally really make it worthwhile.