

Pricing Your Service to Line Up with the Value You Deliver

FPA Philadelphia

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The future is already here...

There is a general agreement that the way we charge is not optimal. A number of advisors are moving away from the traditional All-in AuM fee and innovating successfully

June 2017



Principles for re-designing wealth management

We can change

December 2017



What clients say they want us to offer

We should change

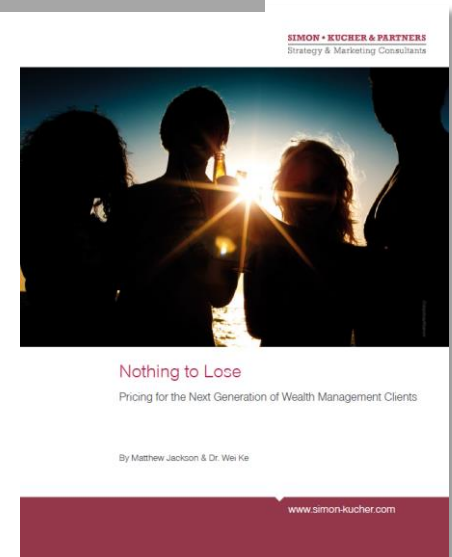
March 2018



Real life innovations in fee and offering structure

Change is happening

December 2019



Advisors who have solved the XY pricing dilemma

Change has happened

What we know: the world is changing

The future belongs to advisors who offer more than just money management, and who communicate that value clearly enough to command a premium

Yesterday



Products

Return on Assets

Transactions

Mystique



"Sold not bought"

Today

Tomorrow



Advice

Return on Life

Interactions

Clear Expertise



No clear value = No sale

The new value proposition relies on broader expertise

The value of 'human advice' is evident in the services that do not relate directly to money management

Live Poll

Expanded value proposition

Old value proposition

Investment management



Managing your money
Making it grow



Pricing pressure + de-cumulating client base



Up-front planning



Establishing your goals
Making a plan



Still huge under-penetrated market

Ongoing support



Reacting to changes
Keeping you on track



Differentiator from cheaper competitors

Specialist services



Access to experts
Help in implementation



For HNW clients, a huge time and money saver

The current fee metric is Asset-based, and the structure is 'All-You-Can-Eat'

Price metric is linked to assets, reflecting the former value proposition in which the value resided largely in asset management



Price Metric

How we charge



Price Structure

How price and value correlate

1%

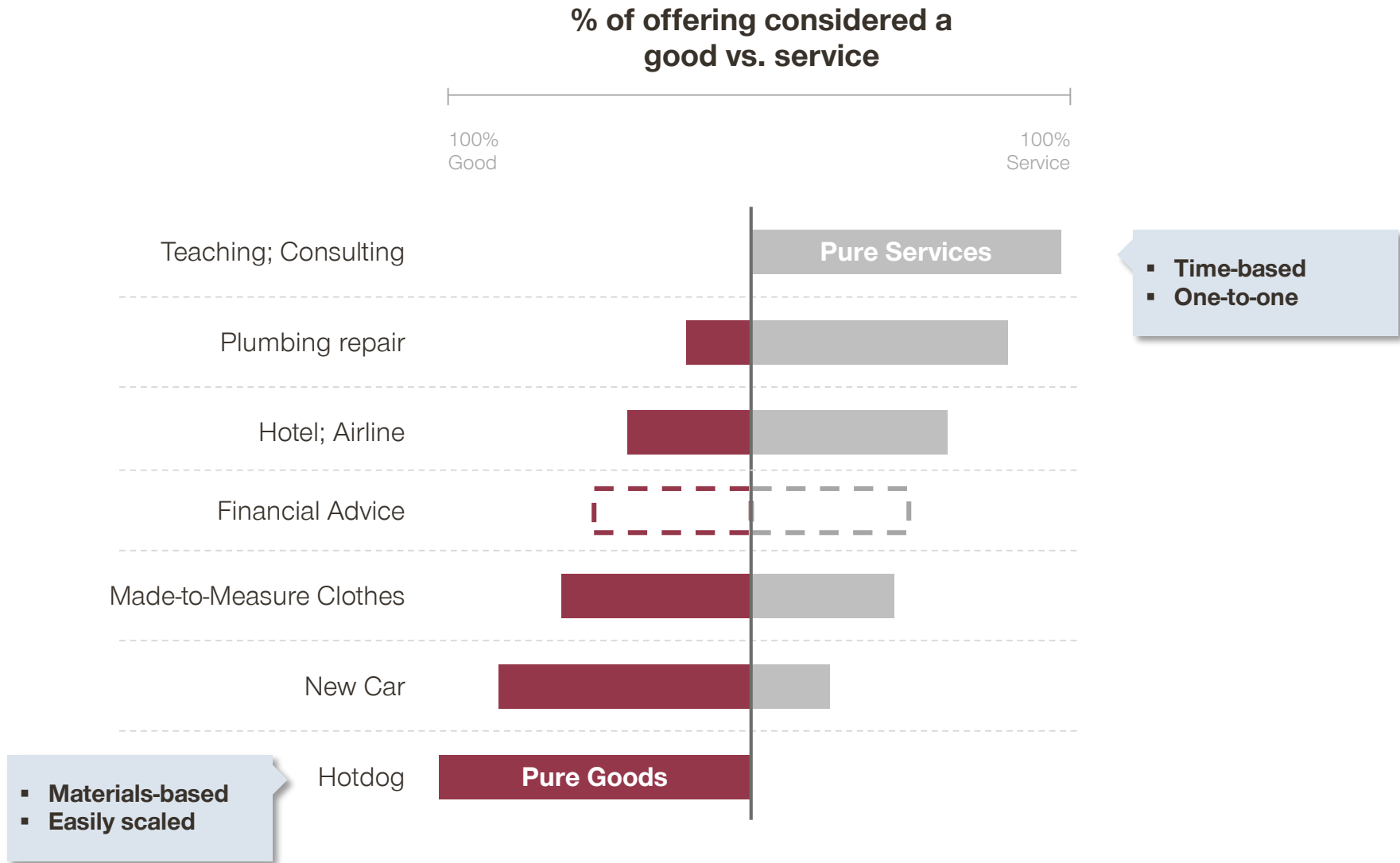


Asset-based Fee

**All-You-Can-Eat
Structure**

However, the move from product-based to advice-based requires us to re-think the price-value relationship

The wealth management industry is shifting towards a service-focused offering

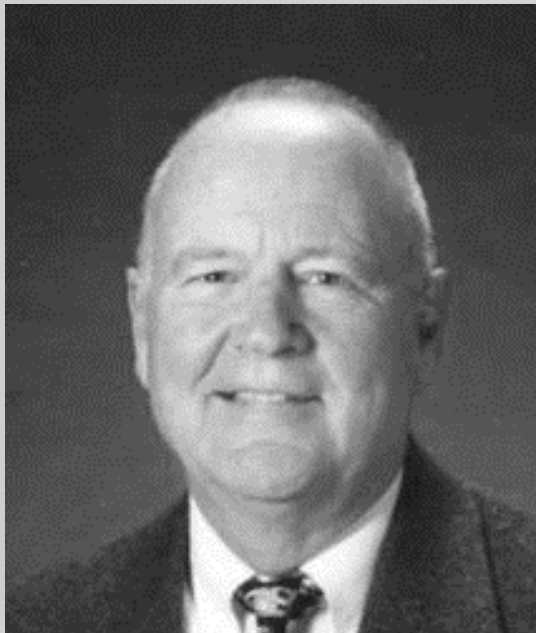


The ability to give time is key to the wealth management value proposition of the future

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In an age of automation, the fundamental value-add of a human advisor is delivered via the ability to spend time delivering a personal service to clients who are able to pay for it

”



Ben Coombs

member of the very first CFP
class, 1973

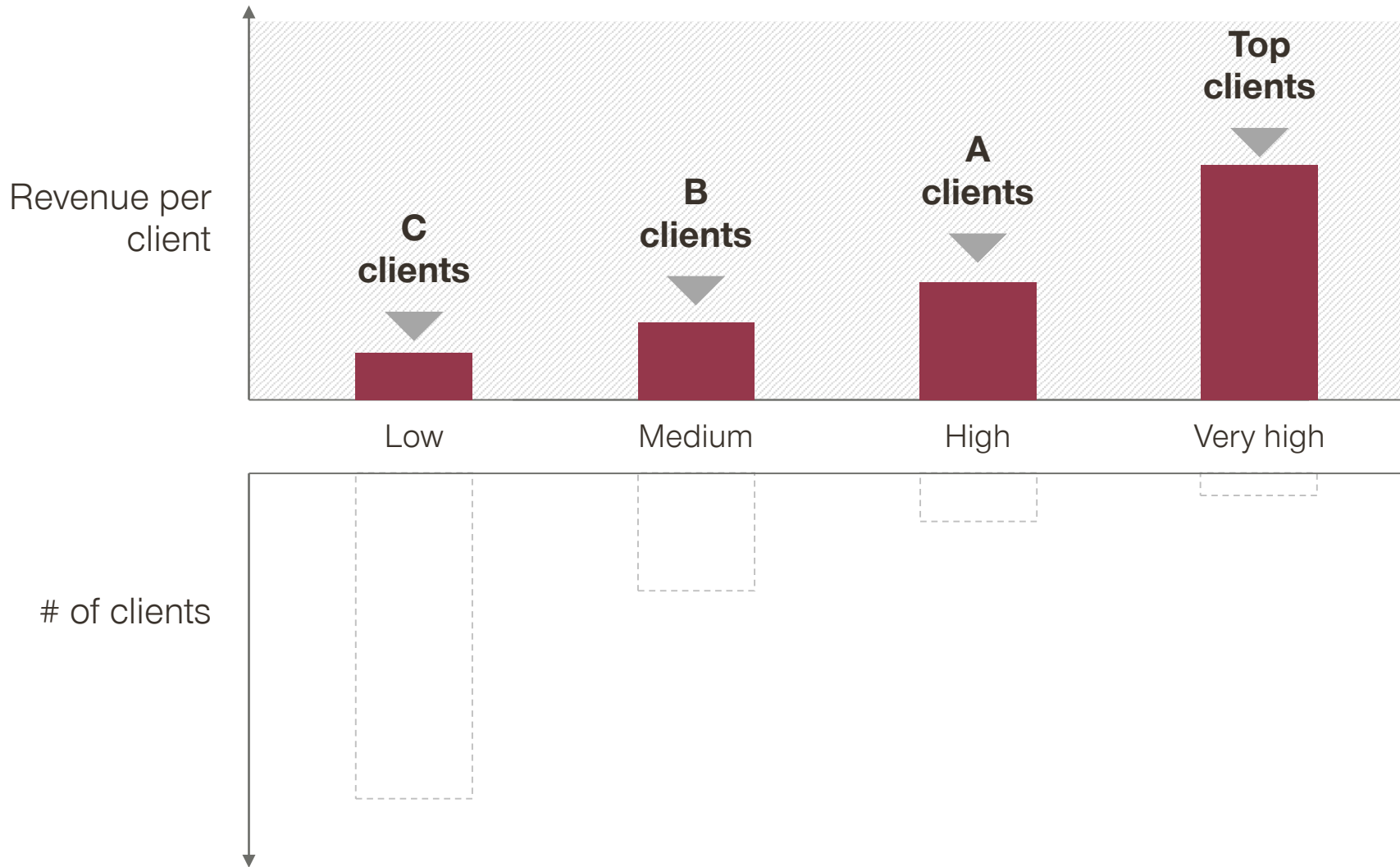
You know, we [CFPs] are the only advisors, the professionals, out there that are in a position to **spend time** with our clients.

You know, doctors can't spend more than **eight minutes** with a patient nowadays.

The current wealth management book

The typical wealth management book consists of a large number of low revenue clients, and a small number of very high revenue clients

Live poll



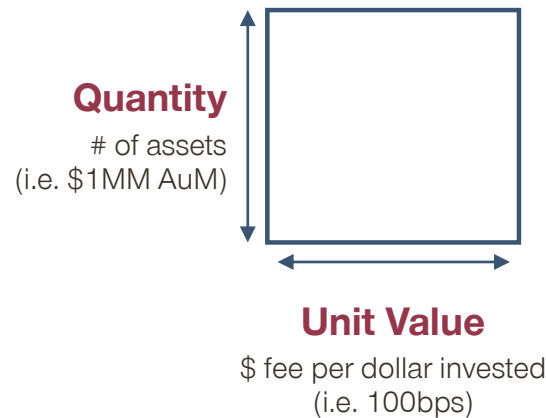
Value-delivered is no longer directly proportionate to asset level

When personalized, human advice is the key value add – time is the crucial unit of value in an advice based business

Products

Investment Management

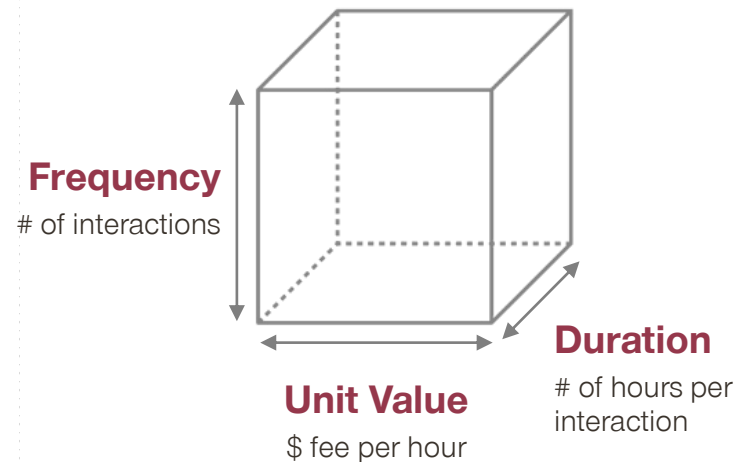
Drivers of value to the client



Value-to-client linked to assets invested

Advice

Financial Planning **Ongoing Support** **Specialist Services**



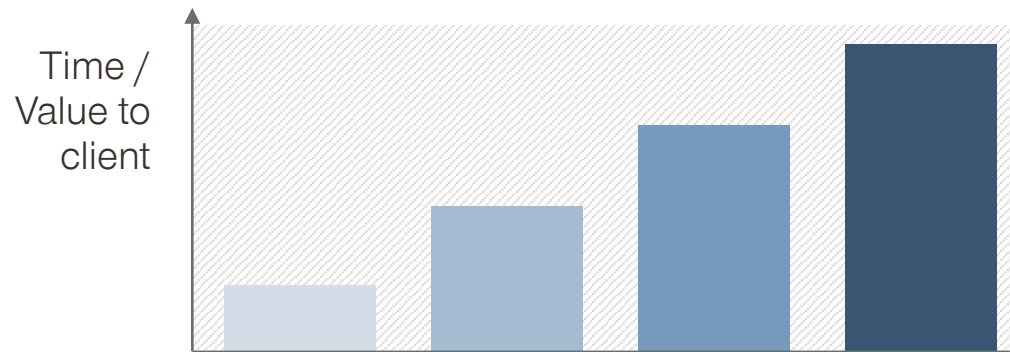
Value / Effort scales with time and expertise delivered

Revenues vary independently of value, and value is not appropriately 'rationed'

Fees for services that are variable / dependent on preference should be structured to reflect this variance

Illustrative

Example: Estate Planning Support



Identify suitable lawyer	✓	✓	✓	✓
Make initial contact		✓	✓	✓
Arrange paperwork			✓	✓
Negotiate fee				✓

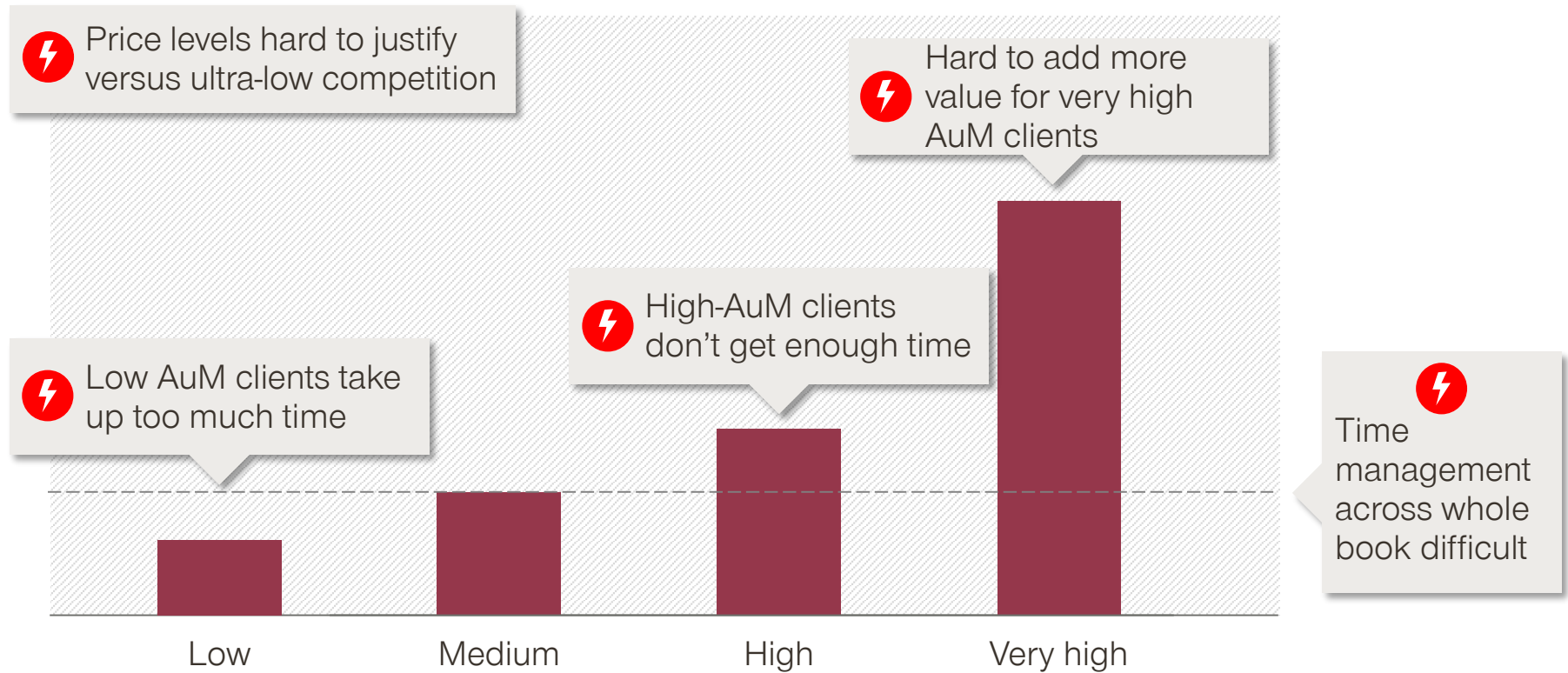
Structure
All-In Structure doesn't work...

Metric
...as value not linked to assets

If we don't measure what we do and link it to what people pay, we can't guarantee the availability of the service, articulate the value, or charge for it appropriately

Issues with the current fee model

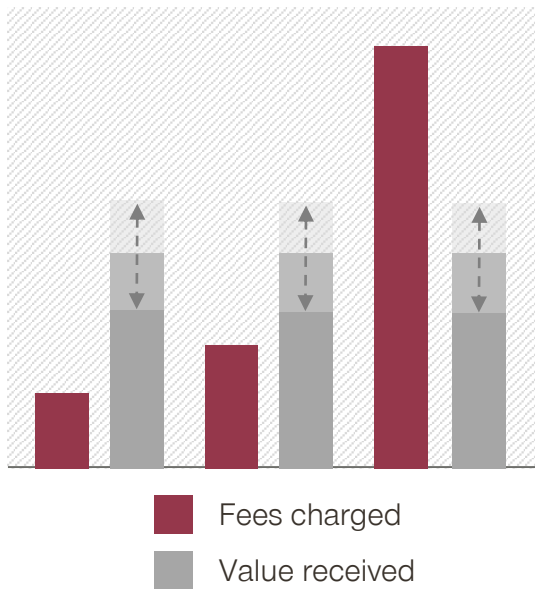
If value and revenues are not linked tightly enough, we will end up in a situation where some clients are not paying their way, and stealing value from higher paying clients



We need to move from haphazard to proportionate effort

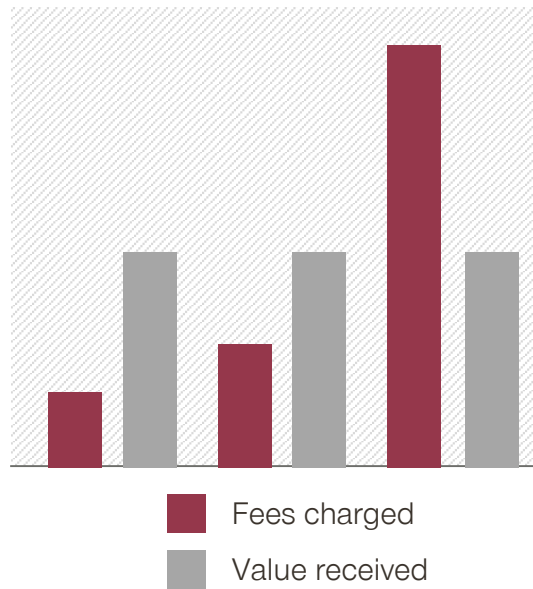
Both the price metric (at the lower end of the asset scale) and the price structure (at the upper end) are creating issues of value communication and delivery

Value received / \$ paid vary independently



All You Can Eat

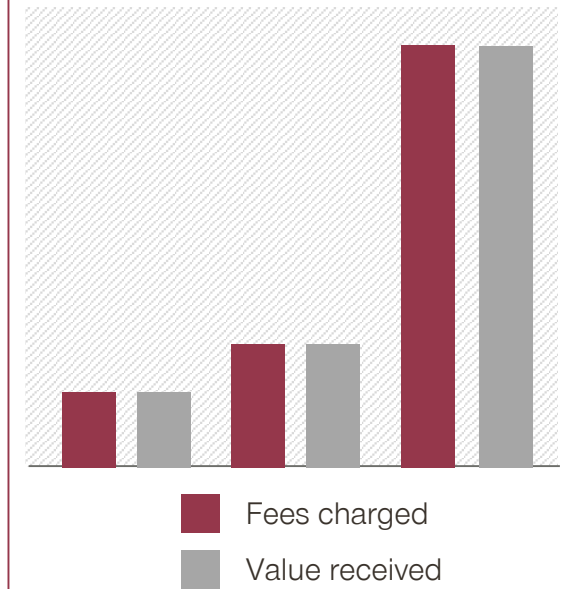
Value received does not vary with \$ paid



One-service level fits all

Recommendation

Value received / \$ paid proportionate



Multiple service levels

- ✓ All clients pay a fair price
- ✓ All clients profitable

New, imaginative fee models are emerging in premium wealth management to better align price and value

Many experiments – often by owner-managed businesses – have demonstrated that alternative fee metrics and structures can work









Simon-Kucher "Future of Fees" Report



All of these fee models connect **Value** more closely with **Fees**

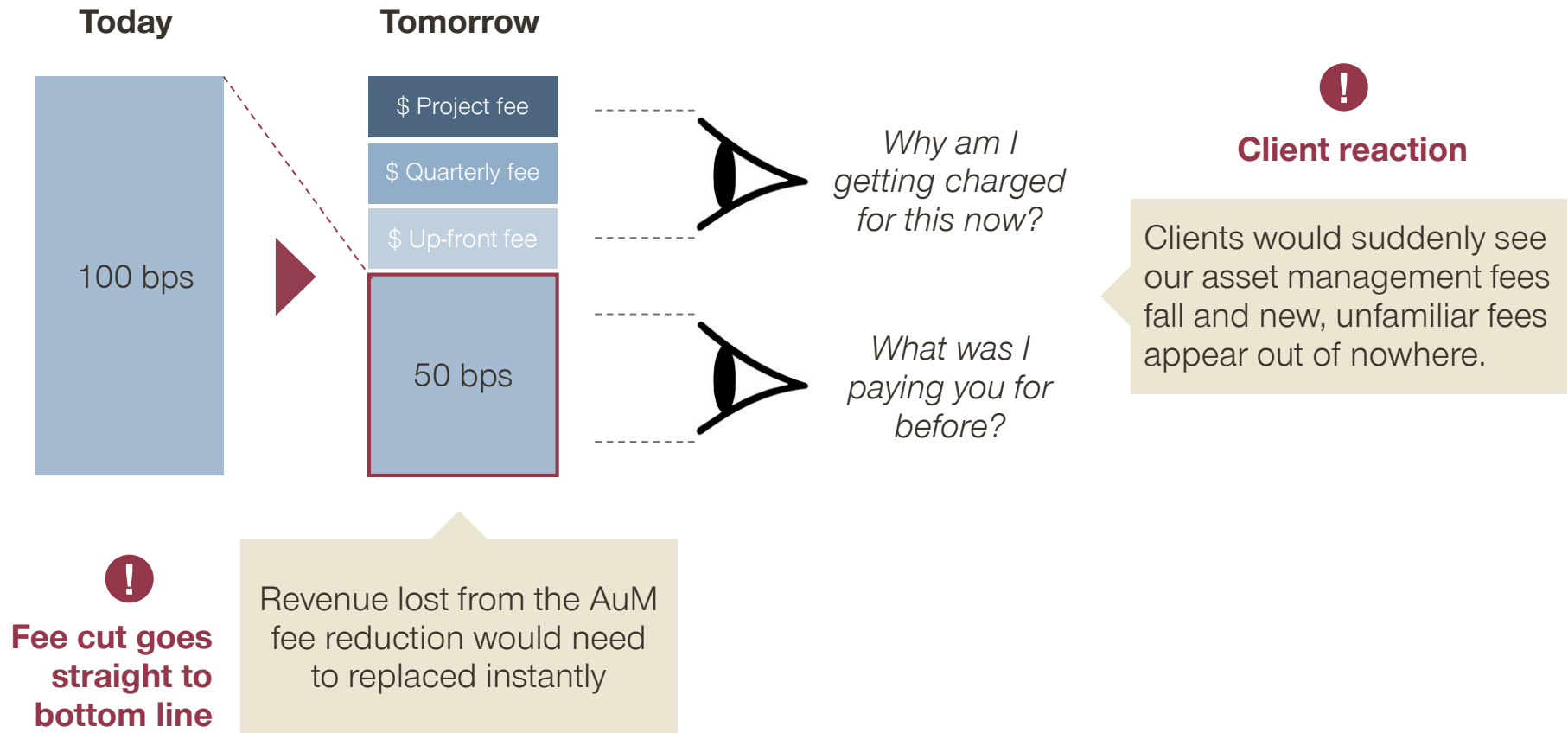
These models make use of various additional price metrics

As well as protecting profitability, these make it possible to reflect complexity and client choice

	Price Metric						Fee level determined by:			
	AuM %	% Net income %	Net worth %	Up-front \$	Yearly \$	Monthly \$	Hourly \$	Asset- level	Com- plexity	Client choice
 Hourly fees							✓		✓	✓
 3-part fee model	✓			✓	✓		✓	✓	✓	✓
 Fixed-fee only					✓				✓	
 McDonalds Menu	✓				✓			✓	✓	✓
 Gen X model		✓	✓							✓
 Subscription model				✓		✓				✓
 Super-Retainer					✓				✓	
 Modular AuM-based	✓							✓		✓

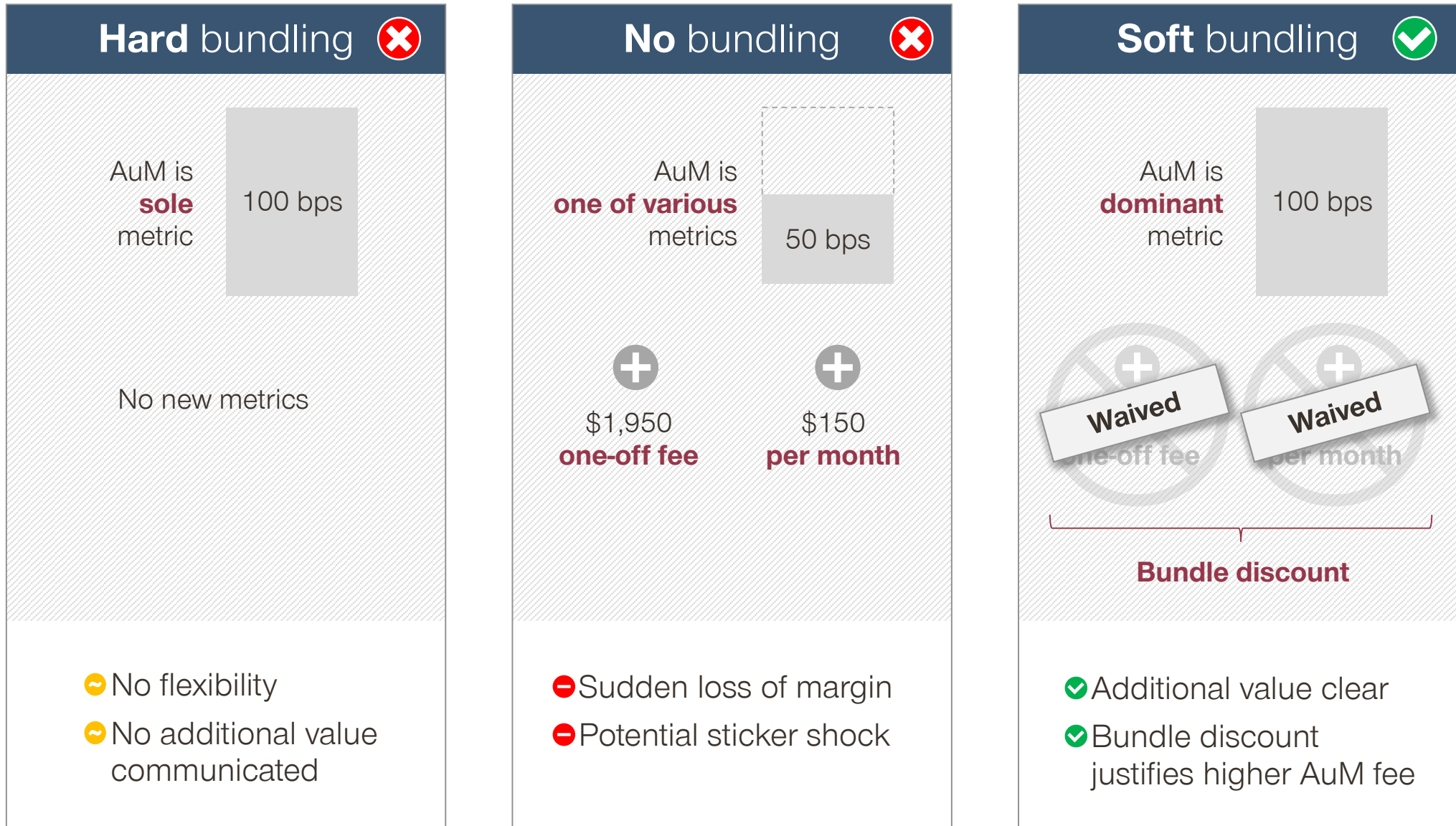
Making a sudden fee metric shift would not necessarily be a good idea

A juddering pivot to a new set of fee metrics would be risky financially and also confusing for clients

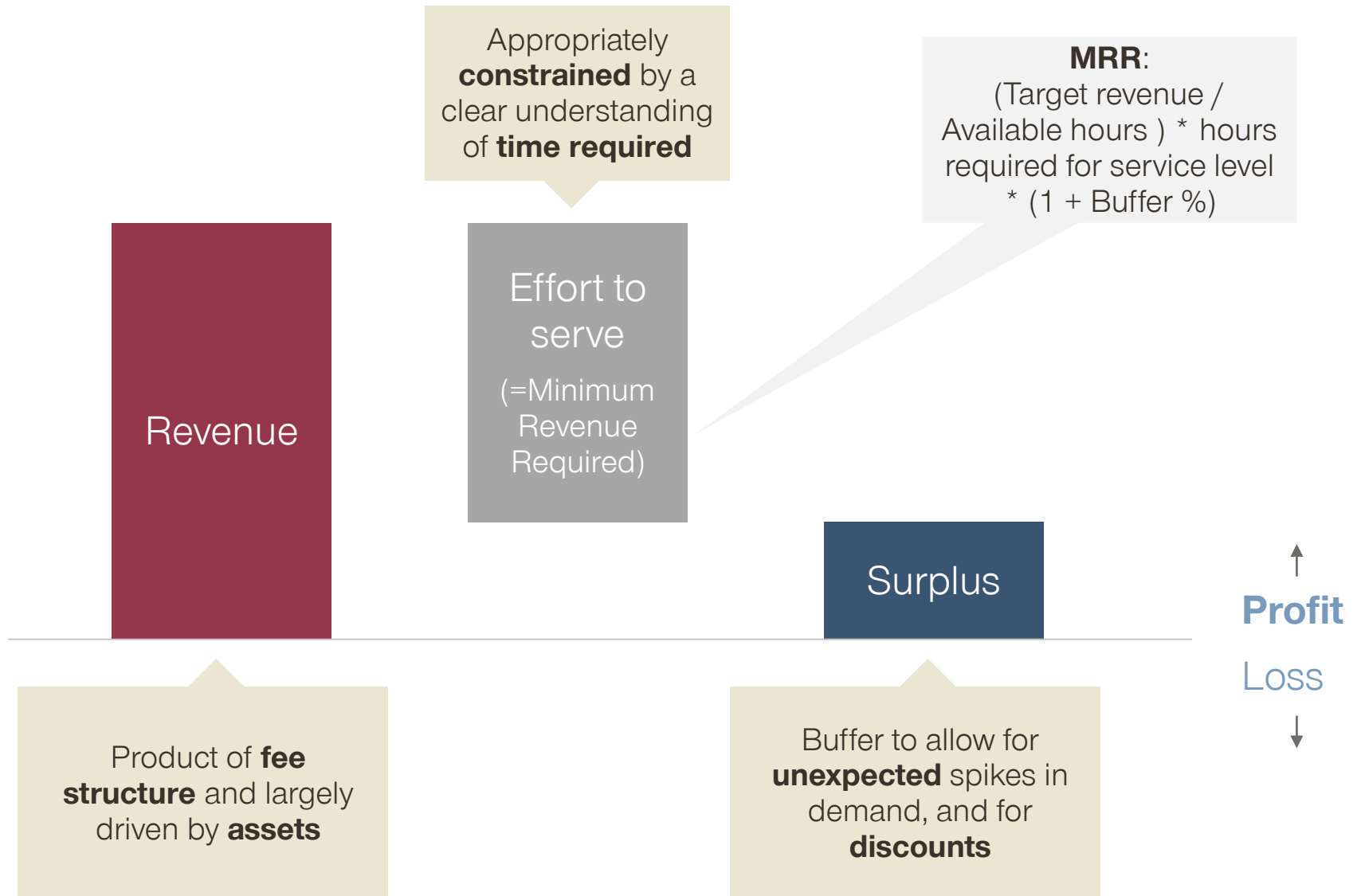


Introduce new metrics but retain **AuM** dominance

By offering a bundle discount on the additional fees, we can avoid risking asset-based revenue






For a given level of effort, we need to understand the 'minimum required revenue' to offer service



For this, we must define a) service levels and b) corresponding asset minimums

Service levels cannot be arbitrary, but must be thought through carefully so as to meet the needs of clients typical of the asset group

Conceptual

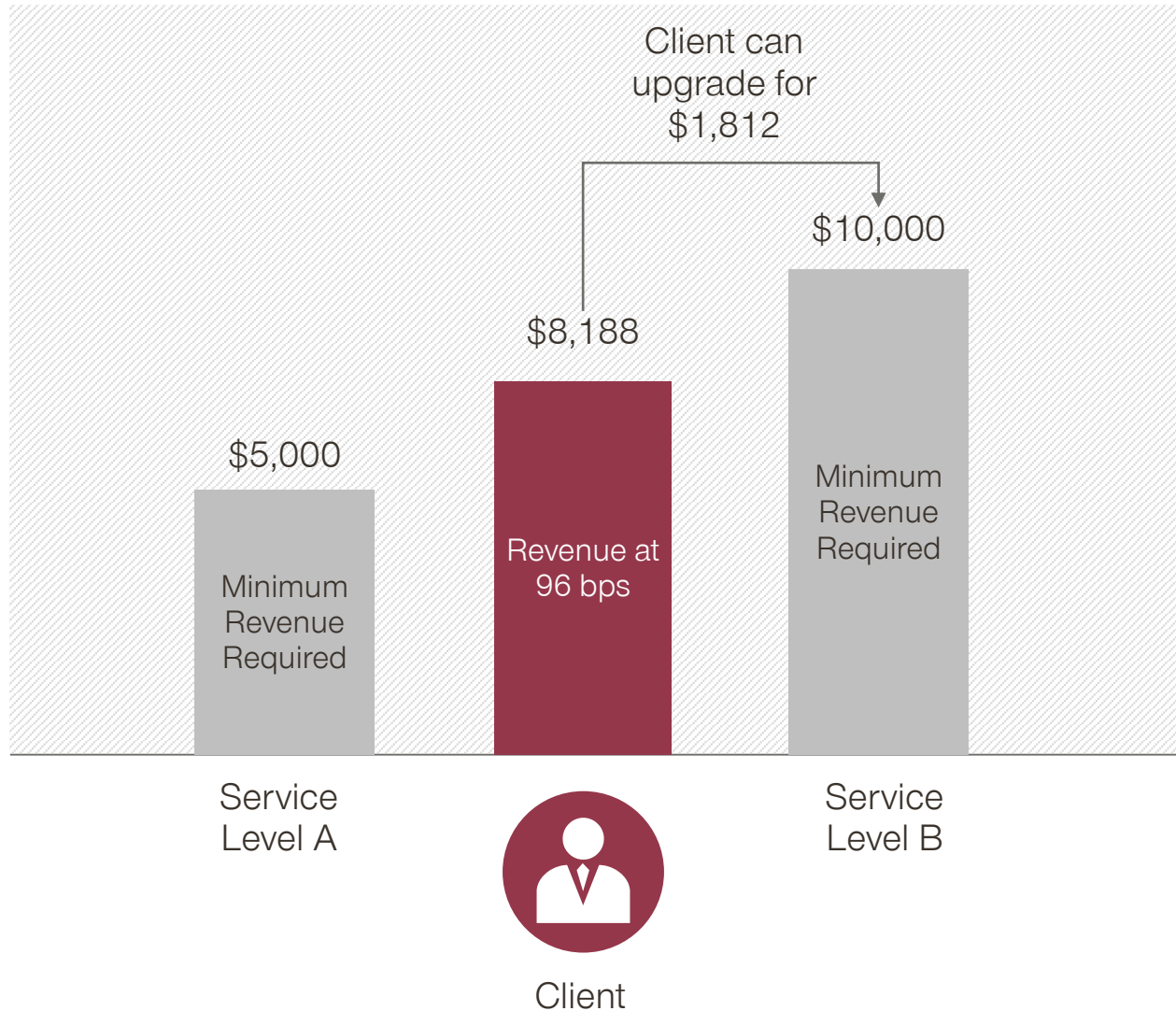
		Service Schedule C	Service Schedule B	Service Schedule A
Investment management		Model portfolio	Enhanced portfolio	Bespoke portfolio
Financial Planning		Basic plan only	Comprehensive plan	Proactive implementation
Ongoing Support		Yearly phone call + 4 reports	4 face to face meetings	Exclusive events / Social calls
Time budget		5 hours	20 hours	34 hours
AuM threshold		\$	\$\$	\$\$\$

The two main constraints are that a service level must be:

- a) Holistic and standalone
- b) Deliverable within the time limit

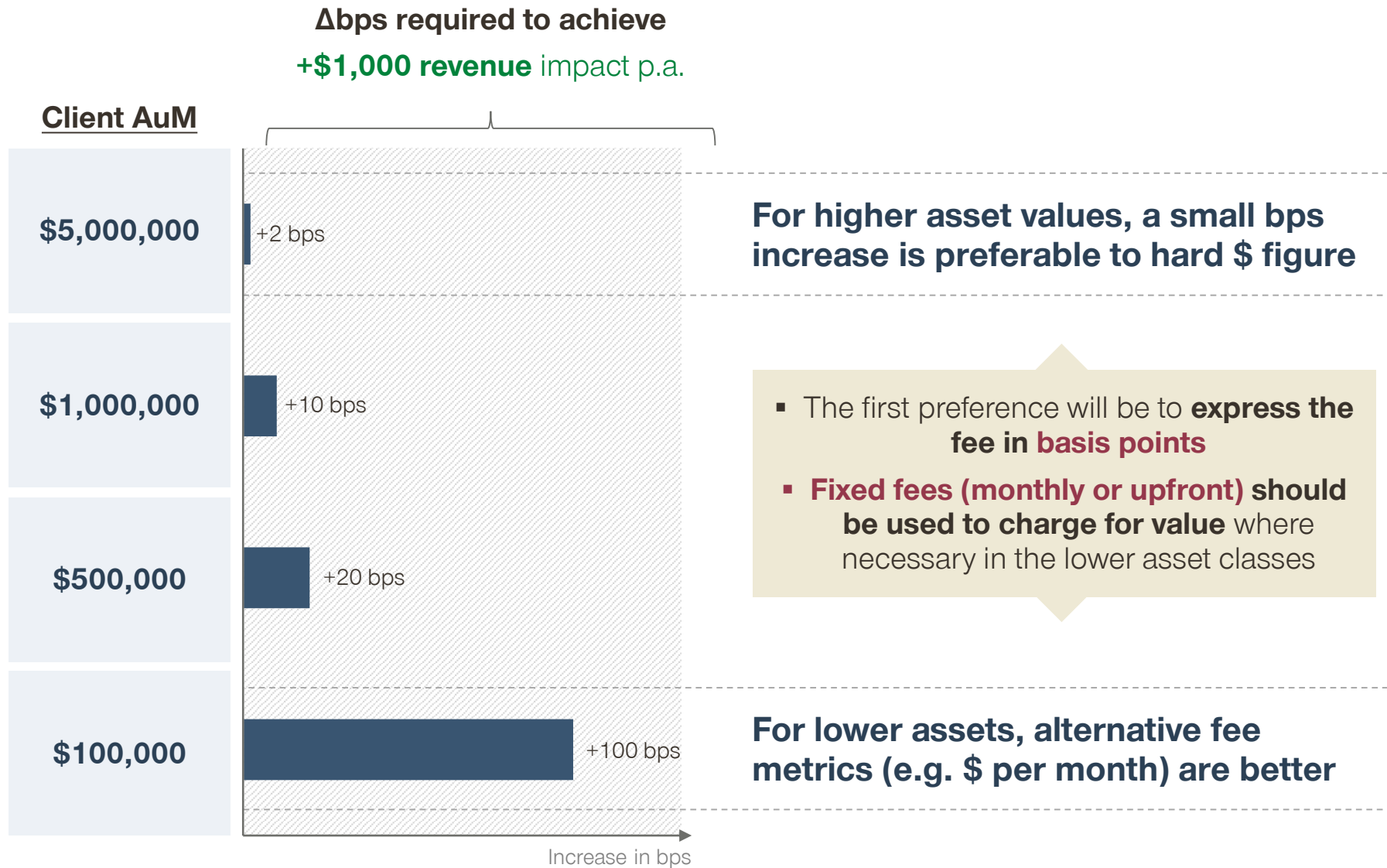
Advisors would be free to upgrade clients with non-asset-based fee metrics

By default, a client would be assigned to the highest service schedule that their asset-based fees would 'pay for'







Advisors would be free to upgrade clients with non-asset-based fee metrics

Depending on the asset class, it may make sense to vary the fee metric used to upgrade



Migration would be easier as no one would need to pay more unless they wanted to

No one would be obliged to pay a higher fee (although clients receiving more value than they are paying for would have to choose between current price and current value)

Client type	Change to pricing	Change to offering	Communication
 High Rev	None	Improves (advisors have more time to serve)	Re-iterate access to exclusive services and other premium benefits
 Mid Rev	None	Remains the same / Improves	
 Low Rev	Not necessarily (if client prefers to keep current pricing)	Restricted in cases where client prefers to keep current price	Define service limits and communicate option to upgrade
 Self-Directed	No former pricing model	No former offering	Packages of non-investment related services that solve common problems

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