



Ten Tips from Advisors Down Under

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It came as no surprise to the Australian advisor that, as the markets nosedived and companies began to fail, their profession (what they did and how they did it) came under renewed scrutiny. It's clear that the same is happening in other countries around the world – not least in the United States.

The question for the US advisor is what's going to happen to their role and how they can best adapt to a changing world. Irrespective of the details, change will continue. Perhaps the Australian experience can provide a few pointers for US advisors.

The fees clients pay

While the markets rose, relatively little attention was given to the fees being charged by advisors, even though more probably should have been. But the cycle always turns, and now so have clients, who have asked in increasing numbers (with a level of disappointment if not anger), "What exactly am I paying my advisor? What am I actually getting for this money?"

In an industry paper issued last April, the main advisor association in Australia, the FPA, proposed a number of key principles to respond to those client concerns:

- Consumers must be able to understand the fee they are paying.
- Consumers must be able to compare fees among different products/advisors.
- Fees for advice and for products should be clearly delineated.
- Consumers must agree to the fee with their advisor and should be able to request that it be turned off if no ongoing advice is being provided.
- Advisors should be paid by consumers for the services they receive, and not by the product manufacturer.

While these principles may be reasonably easy to understand and perhaps hard to challenge, consider the impact on advisors who will need to be able to clearly articulate to their clients (existing and new) just what it is that they do for the money the client is paying them. In our experience (in every country we operate) advisors struggle with this concept.



Advisors should ask themselves, “What is my Client Value Proposition (CVP)?” If you have developed a CVP for your business, is it regularly reinforced (at every opportunity) to your clients, staff and alliance partners alike? Ensure that it appears in your corporate brochure, on your Web site, on various other firm stationary (letterhead, newsletters and business cards, for example) and is prominently displayed in your office. As sad as it might seem, clients quickly forget what you actually do for them!

Advisors will also need to further consider how to present their fee structure in a clear, unambiguous way – in actual dollar amounts. Certainly this will be where the rubber truly hits the road! In fact, the debate still continues in Australia, where there is a strong push to ban all forms of commission payments (irrespective of whether the client is happy to pay in this manner or not). If this becomes law, the advisor would need to invoice the client directly.

Irrespective of the final outcome, advisors will need to be able to clearly explain their fee structure to each and every client before they can take any action. In doing so, they will most likely have to differentiate between the different phases of the client relationship:

- Initial advice (strategy)
- Implementation – product selection and manufacturer liaison
- Ongoing management of the client’s plan/portfolio – service and regular review.

Furthermore, advisors will need to consider the potential impact on their existing revenue levels if clients decide that they’re not getting ongoing value from their advisor and request that their fee be turned off. It’s certainly true in Australia that a number of advisory firms have a significant percentage of ‘inactive’ clients (for whom they no longer do ongoing work, but from whom they continue to receive a trail fee). As their ongoing revenue level comes under threat, they ostensibly have two options – modify their practice’s structure so that it does indeed provide ongoing service to all clients (this will come, no doubt, with an associated increase in their expenses) or look to divest this part of their client base to another advisor who will be able to serve them profitably. Our work in the U.S. suggests the same potential situation.

Finally, and relatedly, advisors must consider the impact on the market value of their practice (‘multiple of recurring revenue’ is still the most commonly used method to calculate value in Australia). Irrespective of the final outcome, we believe that every Australian advisor will need to review their business model and, while some will be affected more than others, it’s likely that the majority will need to make some changes.

As we overlay this experience onto the US market, it seems to us that US advisors could be taking some simple steps now to help them prepare for the changes that will inevitably be coming their way.



Ten tips for getting ahead of the change curve

1. Develop or revisit your CVP – is it relevant, understandable, sustainable and achievable?
2. Review your segmentation model and aligned service matrix. If you don't currently have one, start thinking about it!
3. Ensure your communication program matches the expectations of your clients. Frequent, proactive and personalized communication is a major driver of profit and client retention.
4. Satisfy yourself that your clients are happy with your services. Ask them – conduct an independent, confidential survey.
5. Review your current business model. Decide if you are selling a product, providing advice or doing both.
6. Prepare a document which clearly outlines your fee structure.
7. Understand your profitability drivers – do you know how much it actually costs to deliver your services? Which clients are truly profitable and which are not (and therefore effectively being subsidized)? Do you measure (and report on) 'profit per client'?
8. Decide if you should consider divesting those clients who no longer fit your model.
9. Consider asking an external business expert to help you work through these important issues – someone whose experience and expertise you respect (could be a coach, respected wholesaler or successful CPA, for example).
10. Don't put it off. Start considering these issues now – they're all important and critical to a successful future.

In the investment industry, changes in the American model often take time to percolate before they impact the Australian market. When it comes to reacting to the changing economics of their profession, however, Australian advisors may be the tail wagging the American dog. If so, these words of advice are something financial professionals in the US will be well-served to heed.



Terry Bell is a partner and director of Business Health, an Australian-headquartered consulting firm specializing in the financial services industry. Business Health develops and markets a suite of unique and exclusive business diagnostic tools in various countries, including the US, South Africa and the UK as well as Australia. Their tools are supported by a range of specialized consultancy services.

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