

Why is it so important to get your pricing right?

The recent Adviser Sentiment survey by Wealth Insights found that more than half (53%) of the advisers surveyed anticipated that the proposed 'Future of Financial Advice' reforms would result in a decrease in their business revenue from July 2012.


I'd like to say that these advisers are wrong, that fear is clouding their judgement, but if a practice does not act early enough to transition to fees, and if they don't get their pricing model right, there is a very real risk that they will suffer a drop in profit. The extent of that loss will depend largely upon the state of their practice and what percentage of their revenue is currently derived from trail commissions from clients that are not actively serviced.

Consider for a moment, the typical segmentation model used in advice practices. Most businesses have segmented their client base and have allocated them a classification depending on revenue. For illustration purposes, let's say you've used A, B, C, D. The D clients (and often the C's) are usually people for whom you are receiving trails that are not substantial enough to pay for 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 reality, many of these people are not clients at all - they are customers who had a need at some stage in the past, and you filled that need with a product - they did not want financial advice, and despite your best efforts, they have not extended their relationship with you any further.

It is these customers that will be attracted by the plethora of low cost product providers who are only now starting to wield their mighty advertising budgets. Whilst one would expect that there will be some degree of apathy from people who won't be bothered filling in forms to move their funds, you should expect that you will see attrition from this tail end of your client base.

The impact of this attrition will vary depending on what percentage of cashflow comes from those 'customers'. Run the numbers on your own business - how much money did you earn last year from your C's and D's - can you cope if you lost 20%, 30%, even 50% of that revenue?

In most businesses, (certainly those who have not undertaken a thorough process to price their advice) that cashflow subsidises the provision of advice to the 'real' clients of the firm. Those clients who are engaged with their adviser, who really do need advice and are prepared to pay for it, and yet often are not paying enough to be profitable in their own right.



The fact is, financial planning practices will look very different in 10 years time to what they do today – and indeed they are already vastly different to what they looked like ten years ago!! In the future, advice businesses won't be adding to their 'trail book' of revenue, so it becomes increasingly important that when they do take on a client or provide advice, that they do it in a profitable manner.

Advisers who intend to leave it until closer to July 2012 before taking action, or indeed those who are considering they will simply apply an asset-based fee that is equivalent to the current commission rates they receive will be doing themselves – and their clients, a great disservice. If you don't get your pricing right, you may put yourself out of business, and then where will your clients be? Having worked with many financial planners to create their fee model, and having researched hundreds more, we know that it is not a simple process to undertake. It can be complicated, emotional, and will take time. You will need to get very clear on the type of client you wish to target, and create your business model and fee model to suit. You may still choose to provide pro bono services to clients who need your advice but can't afford to pay for it, but these clients will be the exception not the norm, and you will only be empowered to provide this pro bono advice if the rest of your clients are paying your fees on a commercial basis.

Our experience in this area demonstrates time and again that advisers who are confident in charging their fees rarely have a client who doesn't want to pay 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 to 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 - if 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 it to them. This is where your integrity as a financial planner must take higher priority over your ability as a salesperson.

The bottom line is, if you get your pricing right, your business will be well positioned for the future – the Future of Financial Advice.