

Fear hampers pricing model change

BY CAROLINE MUNRO

Research into adviser pricing models, conducted by Elixir Consulting over 18 months, examined how and how much advisers are charging for advice. The results were met with much interest at the recent FPA Small Principals' Conference, held in Canberra.

Elixir Consulting managing director Sue Viskovic revealed some of the key findings, one of which was that there is no "one-size-fits-all" answer to constructing an effective pricing model for advice.

Some 120 small and large advice firms across Australia were interviewed throughout the 07/08 financial year.

"The main purpose of the research was to assist advisers who are wanting to create their own pricing model," said Viskovic.

"To assist them to see how this is done and how they can get around many of the issues that tend to hold people back."

Willingness hampered by fear

Viskovic said there is willingness for change, but one of the biggest challenges is the fear of change.

"Every time I do a presentation on the research, so many advisers say 'we've heard the arguments for fees and commissions for such a long time, we know we want to take more control over the issue, but we just don't know how,'" she said,

This fear has recently been exacerbated by the global financial crisis and the Parliamentary Inquiry into recent financial planning company collapses. Viskovic said remuneration is definitely back on the radar since the Storm Financial collapse.

"It's not so much about the argument that commissions are unprofessional. Financial planners just want to take more control of it themselves," she said, adding that regardless of what pricing model they choose, planners want to be rid of the reliance they have on a third party for the income generation of their business.

Variation dramatic

Viskovic said the variation in the cost of advice is great across the different pricing

models. But even so she feels this is not the crux of the issue.

The research interviewed 120 firms, but 15 were selected and their business models examined in depth. The research has documented their entire pricing model, detailing how they charge for initial and ongoing advice, and what they do with revenue that is traditionally built into products.

The researchers then selected three sample clients from that pool of 15, put them through different pricing models and examined how much each of the clients would pay for advice.

"It did vary a great deal. But I think that's because financial advice is not 'one-size-fits-all'," said Viskovic.

"You can go to six different businesses and see that the way that they construct portfolios is different; the services they offer are different. There is such a variation.



Sue Viskovic

"And I do believe that there should be variation so that people can get advice suited to their own circumstances."

In Viskovic's view, the issue comes down to disclosure.

"Once you have taken control of your pricing, I don't believe anyone should tell you how much or how little to charge so long as the client understands what they're paying for. If you are being paid from an ongoing revenue stream, then you should be doing something for that.

"If it means that your client can't afford to

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pay you an upfront fee, and therefore you are prepared to give them advice and allow them to pay that over time, that's fine. But be clear about what that fee is and be clear about when that payment plan finishes, as opposed to a train that goes on forever more and the client gets nothing for it. I think that's one of the biggest bones of contention."

Viskovic said she hoped research such as that conducted by Elixir Consulting would go somewhere towards getting past the emotion that surrounds financial planning remuneration.

"A lot of the emotion comes from those who don't know of a suitable alternative, and that's really what this research is about – to let them know that people are doing it out there in the marketplace, they are running very successful businesses, and they have total control over their revenue streams." ❖