

Pricing Advice

How much is advice worth and what's the best way of structuring fees?

David Chaplin reports.

Sue Viskovic, principal of Elixir Consulting, has been asking Australian advisers: what is the right price for advice? The answer, of course, depends on who you're talking to but as the Perth-based Viskovic has discovered – if you ask enough people some common themes emerge.

Viskovic set herself the task of conducting in-depth interviews with advisers in approximately 30 businesses around Australia, with a goal of compiling an industry-wide picture of how financial planners charge for what they do.

"The general assumption is that advisers charge an ongoing fee of about one percent of assets under management," she says. "But there's no research to back that up."

Viskovic says she is actively seeking the "thought leaders" in practice management, to ensure that the results don't hinge on "a large number of similar, 'old-style' models".

"Many advisers have expressed the desire for this information, not only to see where their 'price' fits in the market – but also to keep them abreast of the different methods/philosophies that are used," she says.

Her research is not quite complete but Viskovic, who is scheduled to present the results to date at this year's Financial Planning Association conference, has gathered enough data to draw a fascinating picture of an industry in transition.

SETTING FEES

While she is keen to avoid adding more fuel to the 'fees versus commissions' debate, Viskovic sees the industry moving towards a fee-for-service model. However, she says that the issue is more about making sure clients understand exactly what services they are buying and how much they cost as opposed to the actual payment mechanisms.

Viskovic says that an important feature of any fee-for-service offering is that the advisers, not the product manufacturers, decide the price. "More and more advisers are finding they want to set their



own pricing rather than just take whatever the fund managers decide to give them in inbuilt commissions," she says.

To date, her study has revealed many different models being adopted by financial planners as they seek to gain control of pricing; but some themes have emerged. For example, Viskovic says those advisers who have successfully moved to a "pure" fee model have been very specific about the kind of clients they want to service. Also she says that about 90 percent of the advisers in her study who have switched to a fee model used an external party to help them through the process.

THE VALUE OF SERVICE

Viskovic is also finding results which seem to debunk the received wisdom that fee-for-service only works with high net worth clients. She says that many of the advisers she has researched have instituted a fee model for 'wealth creators' – mainly high income clients who haven't yet built up sub-

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stantial assets. In the case of these wealth accumulators, Viskovic finds that advisers are charging a flat fee, or variations of that which may involve a "matrix" of charges, depending on what services the clients use.

"Many advisers are trying to link their fees to 'value' rather than service," Viskovic says. Although it can be tricky to define 'value', she says it includes a mixture of quantitative measurements as well as some of the more "intangible" benefits of advice that financial planners often don't consider in their pricing models.

"The one thing I've discovered that does not work is charging an hourly rate," Viskovic says. "I've spoken to a couple of planners who were fiercely fee-driven: they didn't want to charge commissions, they didn't want to be linked to assets. So they started out at an hourly rate but they found their profitability dropped and they weren't able to service their clients properly and the value of their businesses dropped."

However, when calculating how much they should charge for advice, most advisers begin with an hourly rate. Viskovic has found that rate varies from practice to practice, ranging from \$220-330 per hour.

The final results of Viskovic's research are due to be published in the middle of next year. ■