How to Build A Fee-for-Service Practice—and Thrive!

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Good afternoon, ladies and gentlemen. What a privilege it is to speak at this MDRT Annual Meeting—24 years after I watched my first MDRT video.

I have been talking about fee-for-service practices for a number of years now, and I can't believe how wrong I have been. For years I have been talking about fees when in fact what I should have been talking about was the other part of that statement "for service." Let me start my presentation by making it absolutely clear that I'm advocating a fee-for-service model that is as much about service as it is about fees. Fee-for-no-service simply will not work. It is also my view that replacing commissions with fees and making no other change to the way the business operates can only be a disaster.

Moving to a fee-for-service business is about a business evolution significantly more than changing a payment methodology. I would, however, argue that the payment method is an important part of bringing that change about.

Before we start, let me explain a couple of ground rules. First of all, you don't have to agree. These are my views based on my background, my experience, and my education. You may not necessarily agree with my approach to fee-for-service but, hopefully, from this presentation, you can take away something that allows you to improve your business.

In 1985, the year that I started in this industry, it was perfectly acceptable to call up people at night in their homes and give them a choice about an appointment on Tuesday or Thursday. In 2009 that's simply not appropriate. In my country it's illegal, and I suspect in many of your countries, it's simply poor business practice.

This is about what is practical and currently being used in 2009. I find it incredibly frustrating listening to academics and fund managers tell me what I should be doing in my business when, in essence, they have no practical experience and have never actually done what they are advocating. This presentation is about what I actually do and what the practice I am part of actually does—right

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now and for the last six years. We are not perfect and we learn every day.

Let me start with my motivations, and I think it's important that before you start this journey you consider what your motivations are. Why did you choose to come to this session with all the choices available to you?

I have three key things that were important to me. Personally, I wanted a model that I would be happy to use if I were a client, knowing and fully understanding exactly how the industry worked. I felt an uncompromised model was important. I left the corporate environment where I worked for 20 years. I had a boss who would determine what I did and what I got paid, and I wanted a situation where I didn't have someone else determining what I got paid and what I did. That meant no boss, but it also meant no fund manager or life office determining what I should get paid. The value was something I would establish with my client. Thirdly, I wanted the freedom to recommend what I thought was right and not have to worry about commissions. I wanted to be able to tell people to put their money in cash, to put their money in investments in shares, or to invest in property, and to know that in every situation, I was doing what I felt was right without being focused on how I got paid to do that.

Let's start off with a little self-analysis. Write down what you believe about financial planning. Then ask yourself the question, "Is your business run according to what you believe?" If it's not, you have to make a decision—to leave that business or change the way it is run. Fundamentally, I don't believe you can be successful unless you do what you believe is right. Would you engage yourself as your own financial planner? Do you believe enough in what you do that you would use yourself as a financial planner? One of the acid tests for us is when people leave or retire from our business. Do they retain us as their financial planner or would they rather use somebody else?

I think one of the great challenges for financial planners is to determine the business that we are actually in. Ask yourself these questions when you're analyzing your business.

- Do you sell products?
- Do you sell insurance or investment?
- Do you sell financial advice?
- Do you sell ongoing advice?
- What is it that you actually want people to buy from you?

I would argue that what clients are trying to buy is, in fact, none of those things. It's peace of mind. It's lifestyle and it's freedom from investment monitoring. It's free time. That's why they come to see financial planners.

This report is a classic thing that clients will pay *not* to have to get. [slide] It amazes me that year after year financial planners drag their clients in and go through a stock-by-stock, security-by-security, fund-by-fund analysis of every investment in their portfolio. I would pay *not* to have to go through that sort of process. It's boring, it's complicated, and fundamentally it defeats the objective of outsourcing this to a financial planner. Here is another great example of an investment report that is even scarier than the first. [slide] It's our view that clients don't want this sort of information and, in fact, are completely opposed to getting this sort of information. When we look at whether it's useful, it raises another question. This is a historic analysis. If people want history, they have an accountant to cover that. As a financial planner, my job is not to recount history, it is to change the future.

Let me capture some of the key elements of our business. We are not investment advisors. This is fundamental. We do provide investment recommendations, but we see that as a part of our role. It's not our reason to be. We do not provide annual statements of performance unlike many financial planners who spend enormous time and effort producing quarterly or annual statements of performance. We simply don't do that.

We recently did our first analysis of history. After five years we looked back and we didn't discuss a single investment or a single product. We looked at the goals that clients have come to us with, and what we had done for them in the five years, and how far we had come in achieving their goals.

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If you're going to run a successful fee-for-service business you have to get the structure right first. Structural success is going to be absolutely critical. You need to build a business that has integrity first of all. To do this successfully you must, in every circumstance, focus on client outcomes. You have to believe that doing the right thing for the client will produce the business outcomes. If you don't believe that, it's going to be incredibly difficult to make the transition to a fee-for-service model.

Be clear on what you do. Clients will need to understand, and you will need to understand, what it is you do and what it is you don't do. Our challenge has been defining the things we can do now that we work on fee-for-service, and the things that we no longer do.

I think is also very important that the business model you define is a win-win model. It's got to be a situation where your client wins and you win. If it is a situation where the client wins, and you don't, or where you win and the client doesn't, it's not a sustainable business model in my view.

Let me talk a little bit about our journey. It can seem a little daunting, moving from a commission-based business to a fee-for-service business, and I will grant you we felt that. I want to give you a sense of where we've come from just to show you that it is possible and so you don't make the mistakes we did. Tupicoffs spent 32 years selling life insurance and 32 years receiving commissions only. There were no fees charged or received in that period. We were well respected by the clients, but we had a low level of client interaction and we had an aging client base. There was one client advisor, and the whole business was very focused on one individual. We had stagnant revenue and therefore falling profits, and our average revenue per policy was $82 per annum.

It was very obvious to me when I joined that for $82 per annum I wasn't going to be able to keep anybody happy. Eighty-two dollars per annum buys two visits to my doctor of five minutes each. My doctor wouldn't recognize me in the street, and he is a minor part of my life. I knew if we were going to be successful in building relationships with clients that we couldn't do it for $82 a year. We had to find a better model.

The most successful professional services model I've come across is medical specialists. They are in such short supply, and in such demand, that you can't get an appointment for months, and people are happy to wait. You can only get in with a referral. But you know when it's serious to go and see a medical specialist.

This is the model that we have built our financial planning practice on. We identified the key components and duplicated those in our practice. Firstly, it is by referral only. We only take clients who are referred by other clients, their accountant, or their solicitor. If we were going to act as a specialist, we had to develop our skill levels to such a point that we were able to offer a specialist skill level when people came to see us. One of the important components was a waiting list. When I first started financial planning, there were virtually no clients, and I was becoming quite adept at Solitaire. But I made the decision that if people were going to come and see me, I wasn't going to be available later that day or the next day. There is always a wait to see a competent professional. We instigated a waiting list, and now we actually have three to four months of clients on the waiting list at any given time. And it's quite interesting that when clients have had to wait three or four months to see you, they take the appointment seriously. They will do whatever it takes to be there, they do not cancel their appointments, and they always show up.

We decided we would also specialize in a certain niche of clients. It's our view that an advisor can effectively look after no more than 150 clients. There are currently 20 million people that live in Australia, and I can only look after 150 of them. So we found a niche for us—clients with between $5 million and $30 million. Predominantly these are business owners, and that's the niche we have positioned ourselves to service. In exactly the same way as a heart surgeon isn't going to look at your foot, we don't deal with clients that don't fit the profile. The other thing we had to do was charge fees at an appropriate level. When we first started charging fees, one of the accountants who had

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joined us commented that our fees at the levels they were at were a joke, and no one would take us seriously unless we charged a lot more.

Today our business is a fee-for-service financial planning practice. We don't take commissions on investment business or life insurance. Life insurance is part of our overall financial planning. I don't believe that you can look after a person effectively without considering life insurance as part of what they do. We have strong, deep client relationships. We have a four-month waiting list for new clients. We currently have five advisors, and the average fee across the practice has increased to just under $5,000 per annum—almost a 60 times increase in six years.

Now let's address some of the mistakes that I made, and I made plenty, but it would be remiss of me to allow you to make the same mistakes without some warning. Firstly, we charged way too little when we started. We were uncomfortable with the fees as we didn't know what level to set. We charged $660 for a standard financial plan and $990 for a complex financial plan. Many clients have since said they couldn't work out how we could do it for the price, but it wasn't up to them to tell us we were too cheap. The hardest thing we've had to do was to increase fees for those we had charged too little in the beginning. That's a much tougher task than simply charging the right fee at the beginning. I would urge you to make sure that you're not undercharging when you start charging fees. If you say yes and are not making a reasonable profit, you're probably charging too little.

We had to change the mindset that every person who walks through the door has to be a client. We have to set a fee that will encourage the right client, but there are some people where the best thing you can do is to make sure they're not a client of the practice.

We no longer accept clients who don't fit the model. Every time we accept a client who doesn't fully engage with us or doesn't fit the model or doesn't trust us, we take up a spot that could be used by a more engaged or a more committed client. We had to get our mindset around the limited supply of our services and make sure that every time we took on a client, it was somebody who would value and use our services, and we could add value to them.

Another of the challenges was our staffing. When I joined the business, we had an existing staff who had worked in the business for a number of years and had formed certain habits that simply didn't fit into a fee-for-service practice. We found that we needed to significantly lift the quality (by that I mean education level and client-engagement level) of all of our staff. Our client survey soon pointed out to us this was an area that we hadn't addressed, and we felt we had a long way to go to get this sorted out. Ultimately, we have hired a different sort of person and have a very successful result. We have focused on a well-educated, ethically-aligned staff of people who are more expensive but provide the service we need.

A lot is made of the fees-versus-commission debate in this industry, but for most clients, it's not on their agenda. They're simply looking for an conflict-free model, and initially we spend a lot more time talking about fees versus commissions, and explaining the virtues of one over the other than the clients are interested in. The client simply wants to know that we charge fees and that we are not compromised, and they are quite happy to move on without spending ten or twenty minutes discussing the issue.

If you're going to run a fee-for-service business successfully, there are some key things you need to do and probably need to do differently. Let me start with one that really highlights to us why the business is now different. It is imperative to know your clients, to understand their circumstances, and at a glance, to be able to be up to date. Under the previous model, we would only talk to clients once or possibly twice within a year. Now we talk to clients on a regular basis and, therefore, more often we need to be understanding of their financial situation. To have a successful fee-for-service relationship, it's necessary, in our view, to go beyond the surface level financial details. It's fine to ask the question, "What investments do you hold," but you also need to know what prompted them to make a decision to buy or sell the particular investment, why they still hold it, and how they feel about it. You need to

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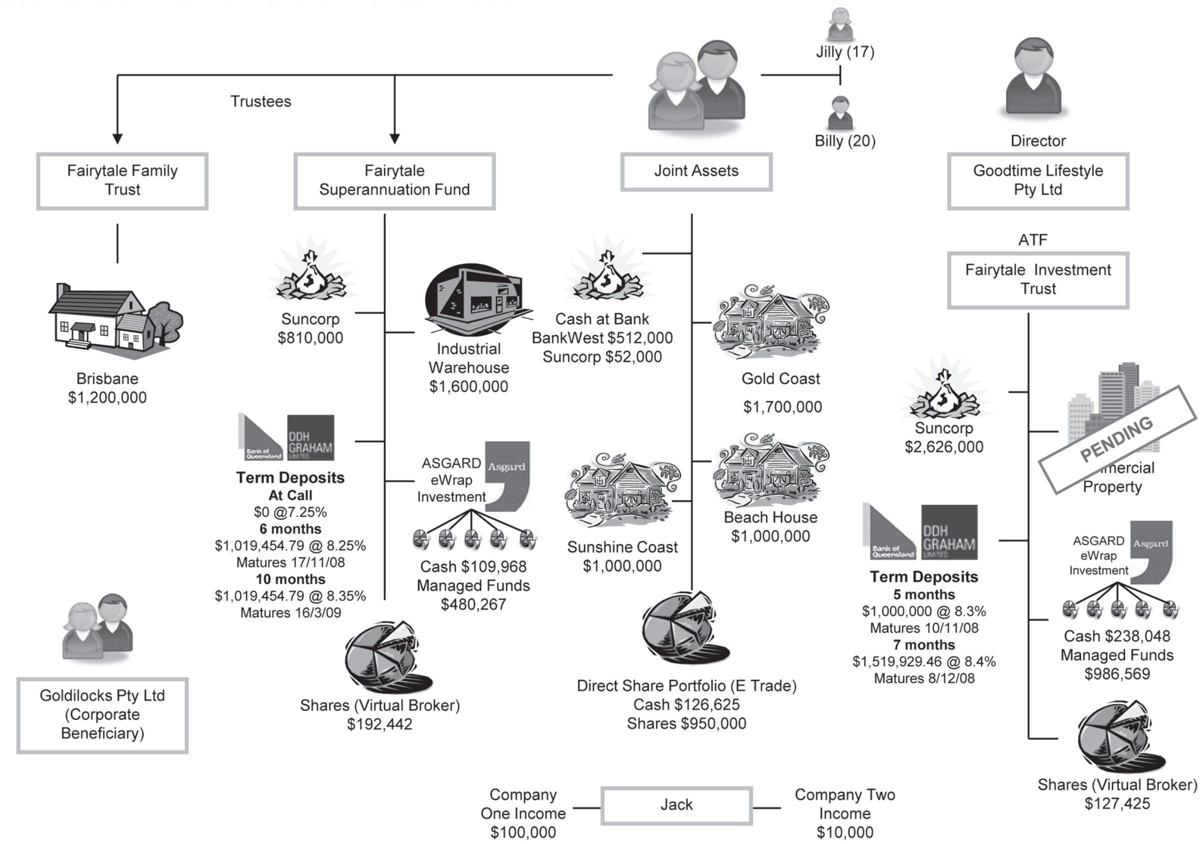
understand what motivates them to get up and go to work, what motivates them to do the things they do, and what are the really important things in their lives. We spend a huge amount of time discussing goals with clients and trying to understand what it is that drives them. Quite often this is as much a journey of discovery to the client as it is for us. Having done that, we believe it is important to continue to remind them of the goals and to update those goals as the relationship progresses, It gives clients something to focus on in terms of achievement, both looking forward to what they need to achieve and also looking back to see what they have achieved since they began working with us.

Be on first name terms. I believe that if you're not part of your clients' life, then you're not really their financial planner, and the test is to simply ask ourselves the question, "Are we in their mobile phone?" If I ring them on their mobile phone, does my name come up and say "Neil" or does an unknown number come up? If I only speak to my clients once or twice a year, I can't expect to be part of their life. If they call me when they need advice or if I call them whenever advice is needed, then we start to build a relationship and I start to be part of their lives. It constantly amazes me the number of people who come to see me for advice, and when I ask about previous financial planners they tell me, "Well, it was John somebody, not really sure of his surname, not really sure of the company he works for." These are the easiest clients to pick up.

In terms of knowing clients, we found that a visual concept map, as we call it, is a great way to get a sense of your

Jack and Jill - Current Situation October 2008



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clients' total position. Let me show you a real-life version of one of ours. This is what we use to make sure that we understand the clients' complete perspective of their assets and their family. We believe these concept maps are an ideal vehicle for us to work from, but also the clients quite often have never been able to put all the pieces together.

In understanding our clients, it's important to define who they are, and we look at the new clients to make sure they're the sort of clients that we want to deal with. Business owners and professionals, and also industry professionals, fund managers, and other financial planners are the target client base we have chosen. Knowing that, it's then easy to define what they want. The clients that we've targeted are quite clear that they want to know exactly what the fees are and no commissions. They want proactive contact on a regular basis; they don't expect that once or twice a year you will call. They want ease of implementation; they don't want to have to go away with a whole lot of homework and things to do. They're looking to us to do as much as possible of the implementation. They also look for high technical competence and are looking for people who are skilled at what they do, and can demonstrate that.

The other interesting area we found is that exclusivity is quite an important factor. We are an exclusive practice in that we only deal with referred clients. The fact that not just anybody could come was quite important to all of our clients. Clients enjoy the fact that they are able to refer three of their friends and family each year.

During my 25 years in the industry, it's been amazing how many times I've sat through meetings about advisors' client value propositions where advisors would list all the things they did for their clients from the perspective of the amount of time and work that went into it but not necessarily from what was important to the clients. My experience is that clients don't value newsletters and broadcast e-mails. What they actually want is the individual attention. That's what they value, and that's what they will pay for. In my next slide I've listed the sort of things that we believe clients will want: someone to talk to, someone to confide in, someone to challenge them, someone or keep them honest, someone to trust, someone to congratulate them.

What do clients want

- Someone to talk to
- Someone to confide in
- Someone to challenge them
- Someone to boast to
- Someone they can trust
- Someone to congratulate them
- Someone to coach them
- Someone to support them
- Someone that cares

- They want you!

How tough is it to pay off your house, and nobody in the world cares? Financial planners should be engaged in the process and be congratulating their clients when they achieve this. Someone to help them make the tough decisions, make sure they stay on track, and support them. They want you. They want the individual they can sit in front of to do all those things I've listed. That's what financial planning is about. That's what clients will pay fees for. They don't sign up for your newsletter or the birthday card.

It's important to be able to demonstrate or explain what it is you do. I spent time and effort working out my elevator story. That's the story I could tell a client in the elevator that would explain what I do, and our office is on the third story of the building, so we don't get a lot of time together. The way I describe what I do to the people that don't know me and ask is "I am a money worrier. I worry about people's money so they don't have to." That, in a nutshell, encapsulates the service we provide and just a note to all: It's important that your elevator story is accurate. It has to actually be true and it has to be what you do. Let me give you a couple of other tips—things that you can do that make a difference in engaging and retaining clients in a fee-for-service model.

Can I suggest that one of the best decisions we ever made was to present our business to clients in a structured way? In our first client appointment after the "Hello, how

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are you? Why are you here?" discussion, we then move on to a structured presentation explaining exactly what the business is, how it operates, and what we charge. This ensures that when we reach the end of the appointment and are quoting fees, clients have already had time to absorb the likely fee range. It also enables us to spend five to eight minutes of uninterrupted, "Hollywood" time to present the business in the best possible light. If you're not doing this already, it's a great way to improve your professionalism and get your entire message across. Using a PowerPoint presentation allows you to make it interesting and easy to update.

I suggest that you initiate contact for significant events, and significant events should be things that are significant to the client, not significant for you. And I don't mean the annual automated birthday card, which is an idea that has seen its use to date. I'm talking about the goals and objectives that are important to the client—the dollar milestones: when they hit their first million, when they hit $10 million, when they hit $20 million. These numbers are significant and important to clients, and that's where the focus should be. There are also goals that are significant to clients—getting their first university degree, their children graduating from university, and other sorts of things that should be celebrated rather than birthdays and other so-called automated opportunities.

There are many ways to focus on clients. My average client is around 50 years of age and probably wears glasses. I suspect from many of you that this is a very similar demographic to the clients you are either seeing or would like to see. Can I suggest an exercise that really will remind you to continually focus on what is important to clients? Pull out your business card, find somebody close to you who is about the right age for your target client base, and see if he or she can read the key information on your business card without his or her glasses. It's amazing how many times people have business cards that are not even remotely friendly to their ideal client base. You can argue this is the fault of the regulators, but I would argue there are other solutions. I suggest that you make sure the key information that clients need to know about you is in large bold letters on the front of the business card. This would be company name, your name, e-mail address, and telephone number. Don't for a moment think that the other information is not important, but it's not the information that clients need every day. Can I suggest to you that two-sided business cards allow you to put the relevant details on the front and everything else on the back?

Can you do this? Can you move from commission to fee-for-service? Do you want to do this? These are questions you'll have to answer yourself. Let me however leave you with a final story that might help you through the process.

It's a story about two workmen on a high-rise building site. At lunchtime, they climb up to the top of the building and shuffle along the steel girders to have lunch. The first worker opens his lunchbox and inside are peanut butter sandwiches. When he opens it he cries out, "I can't believe it. I've been on this job for six years and for six years, every single day, I've had peanut butter sandwiches." His mate says to him, "Well why you don't tell your wife that you don't like peanut butter sandwiches." To which he replies, "What's the point? I make my own lunch!"

Ladies and gentlemen, the decisions you make about the business you run and about how you will run it are your peanut butter sandwiches. If you want a different business, if you want a closer relationship with your clients, if you want a business model that doesn't rely on investment returns, then you need to change what you put in your lunchbox every morning, and make sure that what you put in your lunchbox is what you want to eat for lunch.