Chapter 14 – Putting it all together

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"That's been one of my mantras – focus and simplicity. Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains"

Steve Jobs

Introduction

Content throughout the Springboard series recognises that business owners will choose one or more proposition models as their means of delivering expertise and value to clients.

The main proposition models referred to have been:

- Lighter touch service offerings for the General Market
- More progressive service offerings for the Mass Affluent & High Net Worth markets
- Transactional offerings with ad hoc advice or self-service options

This chapter describes how the disciplines explored in previous chapters can be applied across each proposition. Under each proposition, you will see general examples of:

- an assumed target market
- a high level outline of the kind of proposition relevant to the market.
- how the proposition can be delivered in terms of product / platform and investment solutions, systems and processes
- key factors to consider in pricing
- skills / knowledge required to deliver the proposition most effectively
- an estimate of an adviser's capacity to deal with clients in the market place and the potential revenue generated by a full time focus on that market.

The examples presented provide food for thought about how the "moving parts" of your business need to operate to achieve success.

Light touch

The target market

- household incomes between £30,000 & £50,000
  or
- capital to invest between £25,000 to £50,000
- simple needs
- require basic financial advice and an on-going but light touch support.

Proposition Summary

- a port of call for advice on key financial planning decisions
- knowledge that decisions and policies will be reviewed at a frequency that makes the service affordable and of value
- three-yearly reviews and telephone support between time

- annual reviews probably unnecessary.
- a three or even five yearly review with annual courtesy call unless circumstances change significantly.
- reviews could be conducted via Skype.
- interim calls made by support staff - issues requiring advice referred to an adviser
- delivered for around £20 - £25 per month, with total or part payment generated from Funds Under Management if clients wish

Delivery & Portfolio Management

- important that initial advice fees are affordable
- fees could be limited by enabling clients to complete preparatory fact find information on line, in advance
- meeting clients at your office is crucial reducing out of office costs and time and having more information readily to hand to do work on a "one and done" basis
- junior advisers may be engaged in the face to face meetings
- clients likely to only require basic tax wrappers and protection
- on line systems / platforms mean clients can always access information directly
- do not make portfolio administration and reporting a complex and expensive overhead
- investments may be best placed in a fund of funds solution, ensuring alignment to attitude to risk

Pricing

Pricing will be based on factors such as:

- how reviews are conducted e.g in house, at the client's address or via Skype
- how data is gathered – do clients complete the basic fact find data
- the scope of advice required – focused on product solutions or a wider planning approach?

If clients are price sensitive, then provide the incentive for them to help you keep costs down.

A two-meeting advice process should suffice for most clients.
For focused advice clients, an hour per meeting should be sufficient.
For fuller planning issues, 90 minutes per meeting may be more appropriate.

Meetings conducted in your office will clearly keep costs to a minimum and enable work to be picked more quickly by support staff, which helps to reduce the timeline towards cash flow from the fees you charge.

Securing a commitment fee up front with the balance payable on delivering the advice is another way to accelerate cash flow in a legitimate and professional manner.
Alternatively, a firm may on the basis of fee deduction from investments implemented with some payments spread over a 12 month period.

Pricing for on-going service would depend on the frequency and location of review meetings and services provided between reviews.

A £25 per month fee for a three year in house review service cycle ought to be marginally profitable.
If this does not feel like good value for money then clients are likely to opt for at a transactional service (see later).

Firms need a Back Office / Diary Management system to flag clients due for calls or review meetings etc.
The system needs to show the weekly commitment promised to clients in order that resources can be planned.
Documented processes need to be integrated into a task management system capable of triggering activities required to fulfil the servicing events promised to the paying customer.

Skills

Meetings with clients in this less complex market need to remain focussed and streamlined. This does not mean sacrificing quality and attention to client needs. However, it does mean being wary of any tendencies amongst the team to over-deliver on time and resources the clients simply do not expect or warrant.

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If a client does not want to work in the way your firm needs to operate to deliver advice and service cost effectively, then this firm is not the right one for that client. Therefore, advisers must have the commercial and interpersonal skills to politely refer the prospect to an alternative source of advice.

Segment potential

An adviser operating exclusively in this market could manage up to 400 clients.
This would be on the basis that they would see around a 133 per year and have update calls to the rest and fit in a number of ad hoc meetings.

A minimum fee of £25 per month would generate on-going fee income in excess of £120,000.

Given the timescale between review meetings there may be more actions emanating from them than would be created through an annual review cycle.

The volume of planned interim calls and ad hic calls from a large client bank may require higher back up support than other propositions.

More progressive service offerings

Whilst this may be seen as more of interest and value to the Mass Affluent or High Net Worth Markets, there will be a good proportion of the middle management £40,000 plus earners who may see a value in this and pay a fee for this service from income, to help them create the wealth they haven't as yet accumulated.

In this section we will consider three types of service offering:

- Wealth Management – where clients want to have a relationship with an advisory firm to help them manage their investments but are not particularly concerned to have broader discussions around their financial affairs
- Full financial planning – where clients want to be helped to make the most of their financial resources to achieve the key milestones in their life
- Life & cash-flow planning – where clients want a fully integrated approach with a trusted advisor they can discuss all matters concerning them, be they financial or not

Wealth Management

This is for clients who may not have a need to make their money grow for specific financial planning or life goals but simply want to ensure that they optimise the value they can get from their liquid assets given their attitude to risk. The primary focus therefore is the protection and growth of their investments.

Target Market

Generally speaking these will be clients who are post retirement with liquid assets in excess of £100,000, that are looking to optimise or protect against inflation. Some firms may put the bar higher. It may also be Trust Funds that a firm is looking to help Trustees / Professional Connections manage.

Core Proposition

- Delivering Peace of Mind that their assets are being effectively managed to mitigate risk, protect and grow the value of their wealth through effective trust and tax planning as well as adherence to a robust portfolio management strategy.
- Helping clients understand risk and manage their behaviours in volatile times
- Provide at least an annual review and access when needed

Delivery / Portfolio Management

Given that clients in this space will have more opportunities to utilise various tax allowances and are likely to look for a more sophisticated investment approach, minimising the routes to market will be important. Some clients may require some more sophisticated wrappers than those available on a platform, like guaranteed options, VCT's etc. but their core Pension, ISA & OEIC holdings should be held in one place other than in extenuating circumstances. This enables quicker access to information and ability to make changes much quicker and therefore at less cost in all probability.

Some firms may feel that Multi-Managers or DFM's are better at making portfolio decisions and so outsource portfolio management to those best placed to do this. Others will operate a range of model portfolios that they either construct themselves through an In House Committee or buy in models designed by another source. There may be a select few clients that insist on or warrant a bespoke portfolio. To avoid variability these should be kept to a minimum, unless the firm is focussing on only a handful, say 50 or less clients per adviser. If they are making this their central value add, they need to have the real expertise to deliver and also charge appropriately to do so.

If the firm is running bespoke portfolios or models then it simply has to use just one or two platforms as the risks become so significant of oversight, delay and error trying to run portfolios across a number of routes to market.

If the firm is using DFM's then as part of their due diligence they should consider those that can and will manage their clients' money on their preferred platform so there are no cost implications to switching DFM's or Managers in the future. The old world of being tied to an under-performing DFM or one where the relationship has broken down because of the cost of disinvestment and reinvestment needn't apply any longer. If a DFM is good they shouldn't fear this flexibility and it should enable them to deliver their services more cost effectively. To tie to a DFM who wants to retain custodianship of the assets is a risk the client needs to fully understand before they do so.

Whoever runs the portfolios it is imperative every firm has a clearly documented set of Investment Beliefs and Philosophy along with a clear strategy that they can show delivers on that Philosophy. If the portfolio management is outsourced then the emphasis is on the Due Diligence process they used to chose that provider and the process they deploy for reviewing them periodically. If they run portfolios in house then they need a set of comprehensive processes and systems to ensure robust, safe delivery, including investment committee meeting protocols, agendas, minutes, action plans and follow up notes all in place and used. The cost of this needs to be built into the pricing.

<u>Pricing</u>

As the emphasis is mainly on portfolio management it is probably more appropriate that a reasonable proportion of the fee is attributed to the wealth advised upon, however as much value if not more is still gained from good tax and trust planning as well as managing investor behaviour.

We all know how the initial work can vary from one client to another. That is why I would ensure a breaking down of any initial fee:

- Introductory ½ hour at the firms expense, incorporating: an overview of what's important to them and what they are looking for, explanation of what the firm offers, how it gets paid and can they work together, if so..
- Fact find and initial summary report on what they have, the key areas for consideration – a fee dependent on the complexity of the situation, number of investments to review etc – simple scenario say £300, average scenario say £500 and a complex one maybe nearer a £750
- A specific recommendation report may then be agreed with a fixed fee based on the value of the wealth being advised upon, wealth to be invested and any tax savings to be made. This is likely to be tiered according to the value of both the wealth and tax saving.
- Finally there would be some implementation fees to cover the administration involved around the recommendations taken up, be it around a product, trust or wrapper on a platform. These fees are likely to be relatively small £25 - £100 admin fees per item.

For on-going servicing fees I would look to set these based on:

- Frequency & location of meetings – obviously the more they want and if they want them at their home the higher the base fee will be. A flat fee per meeting and a charge per mile may be applied.
- The Management of the portfolio – there should be different adviser charges depending on the work involved. If you outsource to a multi-manager or a DFM then the rates will be lower than if you run an in-house model portfolio service and furthermore a higher fee should be applied for a bespoke

service. Tiered bandings will also be applied to these rates with maybe a minimum fee below £100,000.
- Some firms may also apply an additional charge per product off platform to cover the additional costs of review and maintenance.

As per chapter 9 it may be that if a firm outsources its Investment Management, has one review meeting a year in house the charge on a £250,000 portfolio may be less than the equivalent of ½% they have historically been charged, but they may be more profitable. Another client who wants 2 meetings a year and have the adviser go to them and has a couple of non-standard products in their £250,000 assets, may pay nearer 1% or more as an equivalent.

Skills / Knowledge

In this space any adviser operating in this market needs to be able to have the skills and knowledge to provide:
- Quality tax and trust planning
- Understand the businesses Investment Philosophy & Strategy and be able to articulate it well
- Be able to help clients understand risk and be a good sounding board to their fears, concerns and excitement to allay or temper them as appropriate
- Not to take too much credit for the up-side of portfolio performance and place greater emphasis on the tax and trust strategy, accessibility, speed and efficiency of service and behavioural management.
- If running in house model portfolios or bespoke portfolios have the best level of expertise and qualifications you can within the firm making the decisions, as this will surely be the next requirement of the regulator – how well do you understand markets and portfolio management?

Segment Potential

Given that this segment is not requiring a wide ranging service if this was an adviser's sole focus depending on the frequency of meetings the average client requires they would probably be able to manage around 160 clients on this basis. With a minimum fee of £750 per annum that would generate in excess of £120,000 to cover costs. If most of their monies are managed centrally on a preferred platform and the focus is solely around investments there is likely to be less administrative support per adviser required than in the light touch model.

Full Financial Planning

This is for clients who are looking for all the core elements of financial planning to be planned for and reviewed with varying emphasis at different times of their life. The scope of advice and review is therefore wider than the Wealth Management Proposition as it may encompass Protection, Savings, Debt as well as Pensions and Investments.

Target Market

Whilst it may be more affordable for clients with incomes over £70,000 per annum and / or liquid assets over £100,000 at a base level some clients may pay £80 per month for this Proposition and afford that from lower incomes than this. This is for clients who want help in planning their finances and ensuring they are making good decisions around the products they purchase. They recognise that they neither have the time or the discipline to review their objectives and situation and need someone to help them. They typically include as a segment busy professionals / middle managers with a family.

Proposition

To provide Peace of Mind for clients by providing a regular discipline to sit down and review their objectives and their plans for getting to them, ensuring they are: not wasting opportunities, taking unnecessary risks or incurring the compound cost of delay in making decisions.

After an initial Full Health Check & Financial Plan - this will typically involve a broad review at least annually of all the key financial planning areas. Assessing where they want to be, where they are now and the progress of the plans to bridge any gaps.

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This is intended to provide security and confidence for the family, saving them time and money in the long run.

Delivery

A key to this proposition will be having some good gap analysis, health check tools that can readily report on the gaps in a clients' financial plan and document their Financial Planning Strategy. Some Back Office systems endeavour to provide this and some Cash-flow planning tools can be used in a light touch format to illustrate the gaps and potential solutions.

It is important that a firm has their way of doing this analysis and producing these reports as there has to be consistency that the support staff can follow to reduce the impact of inconsistency and variability.

When it comes to financial solutions, the Protection & Mortgage Markets are complex and regularly changing and so need constant review and access to a wider range of research tools. This is less easy to panel but having an in-house or outsource researcher who is the expert is useful to avoid a number of people fumbling their way through the options will save valuable time. It is better to have one or two people in the business using and becoming really proficient with the systems chosen by daily usage rather than half a dozen people trying to get familiar using them once a week.

Once again I am likely to favour a single or maximum three platform approach to managing client's core tax wrappers. The reasons for this get stronger and stronger as you move more into the Financial Planning arena where you need a consolidated view of the spread of assets to maintain asset allocations etc.

As regards Portfolio Management, this depends again upon the expertise that sits in house. Are the skill sets predominantly based on delivering and maintaining a great Financial Plan & Service? If so unless true Investment expertise sits in house, I would seek to outsource this to Multi-Managers, DFM's or a.n.other to construct Model Portfolios. Why detract from your core value add with something you are less confident about.

Pricing

Inevitably this is more resource intensive at the front end and on-going and hence the rates should reflect this in a firm's charging, so is the value-add.

For the initial advice a similar approach would apply as in the previous Wealth Management segment but the charges are likely to be a bit higher, maybe ranging from £400 to £1,000 rather than £300 to £750. The advice and recommendations charge may have a number of different elements to it if a full strategy is being put in place covering a variety of Protection, Mortgage, Retirement & Investment needs as will the associated implementation fees.

On-going service:

Without repeating all the examples in Chapter 9 on Pricing I would suggest that some charging structure here should incorporate as a minimum:

- A fee per meeting that is higher than in the Wealth Management rate as the cost to review, hold the meeting and follow up is likely to be higher
- A fee is the meeting is out of office, a charge per mile
- A fee based on any FUM being managed with different tiers depending on whether the money is managed through and outsourced channel or in-house
- A fee considering any other assets being advised upon but not managed
- A fee per product not being managed through the preferred platform of choice, nominal review fee of say £20 but any alterations may require a higher charge if not able to do them as efficiently on line as you can with the core platform proposition

Skills / knowledge

- For this market, an adviser needs to be able to apply some more strategic thinking to their financial advice and have a broader knowledge of the various markets. A number of advisors for years have been used to taking orders and focussing on one specific need and solving that, so this skill is less obvious than you might think in the market.

- ➢ They need to have stronger skills to challenge and confront clients with the implications of death or illness as well as helping them to articulate their key goals. The skills of selling Protection have diminished in the market with the demise of the direct sales forces and need encouraging again.
- ➢ They need to be disciplined and organised to collate all the relevant information first time. How can you often a clear strategy without the full picture and time is money if people have to keep going back to the client.
- ➢ They need to follow a consistent approach to fact finding and documenting the outcomes to enable the support team to help effectively. Many are a bit hap hazard with their approaches and have a tendency to do the minimum.
- ➢ They need access to, or have good Tax & Trust planning skills.
- ➢ The firm needs to invest in developing the expertise to use its Financial Planning Tools as effectively as they can.

Segment Potential

If the Wealth Management capacity is around 160, then if all clients were provided with a Financial Planning Service the capacity may be nearer 120 clients, fewer if there was a high proportion of more affluent / high net worth clients requiring more than an annual review. This service whilst it may have a minimum of £1,000 per annum, would typically be averaging upwards of £1,500 providing a turnover of around £180,000. The costs are likely to be higher again as the review work and breadth of expertise required to deliver the proposition is greater.

Life & cash-flow planning

Whilst elements of this can be delivered under the Financial Planning Proposition, this is distinguished by a much deeper exploration of a client's goals and potentially more detailed and in depth use of cash-flow planning tools. This maybe about becoming: a "Trusted Adviser" or "Agent" for the client.

Target Market

At one end it may be clients with so much wealth they don't know what to do with it and need help more with their goals and purpose, rather than cash-flow planning as they have more than enough to meet their needs. At another end of the spectrum it may be clients with good incomes and little capital because they spend for today and not sure where the money goes, such that cash-flow planning and monitoring is important.

Life & Cash-flow planning can be of value to a wide range of clients but the core of these clients are likely to earn over £70,000 per annum or have Capital in excess of £250,000.

Core Proposition

- ➢ Helping clients understand what the most important things are in life for them to achieve and have a clear plan to set out and realise those goals
- ➢ Explore what they want to be have and do, remembered for and leave behind
- ➢ Develop a cash-flow plan that illustrates where they are now, what they are projecting to achieve and model various scenarios
- ➢ Agree the best financial planning strategy to achieve their goals
- ➢ Implement the first stages of that plan
- ➢ Provide an on-going monitoring and review of their progress against the plan and opportunity to talk whenever they need.

Some in addition will extend this into a Family Office type arrangement, being the agent of the client liaising with other advisers and co-ordinating all of their affairs.

Delivery

All the same points in the Financial Planning section apply here, except that the preferred cash-flow planning tool needs to be understood inside and out by those that use it, the support staff who may populate it and the adviser who brings it to life.

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How will you ensure clients provide all the information necessary around their income and outgoings? As it stands a number of advisers may get the bare minimum to prove affordability.

There also needs to be a clear framework in place as to how advisers help clients understand, prioritise and document their client's goals. If they aren't good at setting their own goals and focussing on them, how will they fare with their clients?

As the proposition becomes more and more sophisticated focussing on the more affluent ends of the market the greater the likelihood a firm will need to outsource certain elements of its proposition. It is hard to have leading edge expertise in all the areas required – Investments, Tax & Trust Planning, Relationship Management, Strategic Financial Planning, Legal, Property etc. Hence being the agent who co-ordinates the overall Strategy rather than trying to deliver it all.

Pricing

This is a simple build on to the Financial Planning points, except that there should be an additional charge for the session relating to goal exploration and undertaking the extra work on producing a cash-flow plan. Most firms that adopt this model, will have three meetings to discuss the goals and formulate and agree the cash-flow plan and are likely to charge around £1,200 for this work. They will then charge for recommendations and implementation in addition to this.

On-going service fees should be as the previous proposition, except for an additional charge to review and update the cash-flow plan, maybe £100 - £150. The main work is done at outset so this is not usually an onerous task unless circumstances have radically changed, in which case other advice opportunities arise.

Given the target market and the complexity of this approach, most firms look at a minimum of £1,500 per annum for this sort of proposition

Skills / knowledge

Here more than ever advisers questioning and listening skills need to be really strong. They need to have a true interest in their client's lives, not simply their money. They need to know how to draw out client's real goals, fears and ambitions.

They need to have a way of articulating this proposition which motivates clients to invest the time and effort to explore their goals and provide the relevant factual data.

They need to be able to bring their cash-flow modelling tool to life in front of the clients to engage them fully in the discussions.

Segment Potential

Now some firms have as few as 50 clients per adviser who average £5,000 per annum for the delivery of this service, but on average we may be looking at around 80 clients paying on average £2,500 per annum. They therefore generate around £200,000 but do require extra back up resource compared to other propositions. The hard work is in developing this client bank, once they have gone through the initial work clients are more loyal and open and then the maintenance is less demanding but no less important or valuable.

Transactional / Self Service

At the other end of the spectrum we have Transactional based propositions. This isn't necessarily simply the domain for clients who cannot or will not afford to pay for advice and an on-going service. There may be some very affluent clients who feel happy with their own ability to understand their position and determine their strategy. They simply need a low cost mechanism to buy the products they want rather than pay for advice they see limited value in for them.

Given what we know about the perceived value of advice relating to product research and recommendation this needs to be a very slick and cost effective model, as it is about high volume and narrow margin.

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Target market

This is likely to be for either: clients with assets under £25,000 and / or incomes under £30,000 that are seeking a product to solve a particular solution without a need or desire for an on-going service at all or affluent clients who want a cost effective self-service or easy to delegate service option, to buy product from.

There are two elements to this either involving staff resources or IT systems.

Does the client need help making the decision and implementing it (transacting) or do they want to do it all for themselves on line (self-service)?

Transacting Proposition

- Helping clients solve specific financial planning needs in a cost effective way without the requirement and expense of an on-going service

Delivery

Given the research evidence in Chapter 5 suggests that people will not be happy paying more than £600 for advice and generally only £370 for a report, this gives a clear indication of how efficiently this sort of proposition needs to be delivered if offered. The market does and will pay more than this, but the margins will be increasingly tighter at this end of the market. In this space we are more likely to see Niche players with specialist transactional support for more technical topics, that carry a higher premium and margin as a result.

In so doing therefore as with the light touch operation the fact finding approach needs to:

- Encourage clients to do much of the leg work, complete basic fact finds themselves, come into the office or deal via the phone
- Focus on the key need(s) identified with a disclaimer as to the scope of the advice being offered
- Use on line systems wherever possible for product solutions
- Because they are looking for best product then generally this will mean operating a whole of market approach, but you could offer a cheaper panel or house view option in each area on a restricted basis.
- Because any funds are not being serviced proactively a multi-manager and lifestyle option should be seriously considered

Pricing

The pricing approach would be as for the light touch option except that there would be no on-going service fee and the initial charges may be slightly lower if the restricted options are taken up and they are very focussed in the area they looking for advice upon.

For firms that have an expertise in portfolio management they may choose to offer the management of the investment funds held on their preferred platform(s) of choice for an on-going modest fee. However if they do this, they will need to consider how they gain agreement to portfolio changes if they do not have discretionary powers and re-check attitudes to risk.

Skills / knowledge

Given the transactional "best product" nature of this proposition this will be about maintaining a working knowledge of the research tools and product features and benefits to be able to advise in this area.

Given that this is a volume game and so better suited to larger organisations that can amass large client banks to market to, who have the scale to have specialist units to deal with the individual market areas and better advise clients on the most appropriate product.

I would suggest that for the majority of small / medium advisory firms this is a proposition to avoid and seek to offer at least the light touch option as a credible alternative.

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Market Potential

This has nothing to do with clients but customers, some of whom repeat buy. We will be looking at client banks of a thousand or more per adviser to generate sufficient sales to make an equivalent turnover to the other models and at less margin. The alternative is with a specialist / niche market operations offering like Long Term Care Advice, Pension Transfers / Drawdown etc. where the technical expertise can command a higher margin.

Self Service

This is not likely to be a model firms can afford to invest in themselves but may seek to white label the offering of a major player. The economics are such that income generated from this activity is so marginal, its key benefit is as an offer to large client banks the firm does not wish to manage themselves or sell either. It provides a means of off-loading responsibility, freeing up the firms capacity to focus on its core clients with the potential of the odd juicy enquiry coming back their way as a client's circumstances changes in the future without the interim distraction / cost. In all honesty if this is the purpose the firm is better trying to seek a sale of these clients and properly focus on the job at hand.

Summary

Whatever the model, but particularly the service based models a key element is the ability to minimise the routes to market to better enable them to manage client's investments and tax affairs and release their capacity to add value in many other ways.

The pricing model needs to be more flexible to clearly differentiate the various propositions and ensure each is profitable for clients at all levels.

In moving into the value added space delivering on-going service firms need to ensure they deliver greater reliability by having robust systems and processes in place and have staff that are able to afford the time to be proactive, reactive and listen to their clients.

It is better that a firm makes the decision to offer one or more service propositions or go transactional, but the latter is really a high volume game except for very specialist niche areas.