Practice Development

betashares

Pricing Financial Planning Services

Making sure the price is right

Financial intermediary use only. Not for distribution to retail clients.

Pricing has always been a complex area for advice firms. It requires getting the right balance between maximising profitability and having a competitive offering that enables you to win new clients.

Complicating things further is that a blanket approach is not feasible in an industry where every client's needs and service requirements are different.

Price can be very misleading: it is easy to compare fees, yet difficult for clients to discern the value of one service in comparison to another. There is a tendency for many people to associate price with process rather than outcomes.

Consider two mechanics (who charge the same amount), one highly experienced and capable with state-of-the-art tools, and the other an apprentice with older tools and limited experience. The former may be able to assess and fix your mechanical problem within minutes whilst the latter may take hours to achieve the same outcome.

In this scenario you may feel aggrieved at paying the experienced mechanic the same amount as the apprentice – it doesn't feel quite right to pay the same amount for minutes of work versus hours of work. We need to remind ourselves (and our clients) that it is years of experience that have allowed us to achieve the required result more quickly.

Why do we need a pricing strategy?

It is important for every business owner to regularly assess their pricing methodology to ensure that it is still the most appropriate. The pricing decision for financial planners is particularly important given that financial planning services are a discretionary purchase. Moreover, many of the underlying activities involved in producing quality advice are hidden from a client's view.

The right pricing methodology enables you to articulate your value, maximise profitability, work to capacity and attract the right type of client.

The current state of play

Recent research from Investment Trends has found that the average adviser charged their most recent client an amount of $2,700 for full financial advice, where assets held were $770k – However, the reported cost of providing this advice was actually $2,900, putting advisers in the red straight away.

Another FPA/Core Data study found that FPA members charged an average of $2,671 to prepare an SOA and another $3,757 for ongoing advice. In stark contrast to these figures is the amount people said they were willing to pay for the same advice – in 2019 this figure was $340, down from $530 in 2018 and $750 in 2017.

Clearly a large disconnect exists between the cost of advice and the willingness of clients to pay for it. Better fee transparency can result in better customer understanding of the value of your services. transparency of fees and articulation of services and value are paramount. Historically consumers have been conditioned to 'free' or low-cost advice, which was often subsidised by commissions or other forms of payments.

Ultimately, whatever pricing structure your business chooses, implementation will be critical. A good idea implemented badly will end in failure.

What to think about when it comes to pricing predictability

If you are a larger business with more fixed overheads or large staff numbers, then predictability of an income stream each year may be important. Knowing that you can cover substantial overheads even if markets turn for the worse can be advantageous for planning. In this scenario, FIXED pricing packages may be most suitable.

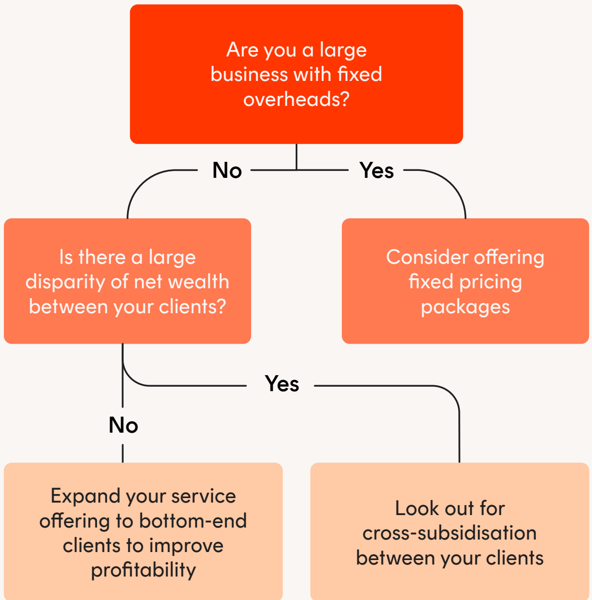
Capacity

Often advice practices will alter pricing models to attract new customers, preferably those with a higher net worth. Before changing their pricing structure to attract new clients, every firm should consider the 'MOVE UP OR MOVE OUT' approach. This involves moving up the bottom end of your client base into a more profitable service offering. A large tail on an advice book can be dangerous, as these are the clients where things are more likely to go wrong. If these clients don't wish to engage in a more meaningful way then consider removing them from your business.

Cross subsidisation

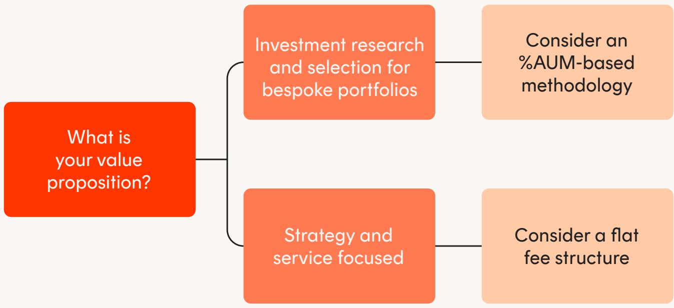
Financial planning is very much about personal connection. Many advisers have clients they like and personally get along with, and as a result they can unwittingly give these clients far more service than what they are actually paying for. Generally when this happens it comes at the expense of other clients who don't receive as much service as they should for the fees they pay. Before changing pricing structures, you should consider whether one set of your clients is cross-subsidising the other - if so you should correct this before doing anything else.

Considerations in practice pricing



Service differentiation

If you currently offer a range of service packages (both fixed fee and % AUM), you should assess whether there are significant differences between the levels of service you offer. Why would a client pay thousands more for one extra review a year or a generic newsletter? Consider whether your client service packages are sufficiently differentiated – if not, you may need to re-evaluate your offerings before trying to move clients up on service packaging.



Value proposition

Aligning your pricing methodology with your value proposition is important. If investment research and selection along with bespoke portfolios is a big part of what you do, then a %AUM-based methodology may be preferable. It will reinforce to your clients that you believe in your ability to outperform markets on a consistent basis, and are prepared to link your fees to your performance. Conversely, a value proposition focused more on strategy and service can easily be centered around a service package/flat fee structure.

Client base age and risk profile

When thinking about how to maximise firm profitability, the average age and risk profile of your clients' needs to be considered. If your average client is in retirement phase and continually drawing down on assets, then a %AUM fee will decline significantly over time. Conversely, a younger client base with a higher risk appetite would provide an increasing revenue stream on a similar pricing structure.

Total revenue contribution

When assessing fee levels, it pays to consider other revenue streams that have been created by your clients. If you have referred them to other professionals for services such as mortgage broking/general insurance/ life insurance and are receiving ongoing payment for this, you should factor this into your decisions.

Common pricing methodologies

The most common pricing structures and their features are as follows:

Price Structure	PROs	CONs
AUM %	• Linked to inflation - meaning there is a low need to officially increase fees. • Performance-linked - will suit an adviser who focuses on investment and portfolio creation • Aligns client goals with adviser incentives – i.e. feel the pain or gain together • If you have a HNW client base you won't need a huge number of clients to be profitable	• Can lead to over/under-charging • Client has no defined service package • Can create long tail as client balances fall – large amounts of clients with low ongoing fees • Ignores clients with low assets but who are prepared to pay for advice • May require minimum and maximum limits and/or tiers – hard to administer
Flat Hourly Fee	• Links fees to complexity of advice • Price accurately reflects the effort to complete the work • No cross subsidisation of fees • Easier for clients to understand - it's a traditional model • May encourage some clients to seek some advice if they feel they do not need to commit to a full scale arrangement • Can be useful for situations that require once-off advice such as redundancies/life insurance etc	• Can create inconsistent income streams which are lumpy • Requires an invoicing process and collection of fees • Clients may not know when they need help to prevent future problems – can lead to compliance issues • Can encourage clients to haggle • No reward for being better and faster than competition - focuses on the process not the outcome • Lumpy workflows can create capacity constraints with
Service Package	• Reliable consistent income streams for your business - regardless of market performance, better for resale • Smooths out workflows over the year • Can be advertised without the need for an individual quote to be given/calculated • Simple to understand - clients have an increased awareness of cost and what to expect • Clients with low balances who choose to pay can still be valuable • Clients can be moved up or down in service packaging as needs dictate	• Clients may underestimate the services/package they require • Does not consider capacity constraints • No automatic inflation adjustment • • People may dislike paying the same amount in periods of poor market performance • Requires strong service differentiation between packages
Cost Plus pricing - cost of delivery plus a margin	• Allows for precision of profit margins • Easy to implement and update • Provides a predictable revenue stream	• May underestimate what a customer values - not aligned to the value provided • Requires knowledge of competitor offerings • No reward for running a more efficient business model • Relies on a client knowing what they may need • Costs may change frequently making it hard to obtain desired margin

Other useful frameworks for pricing

A useful framework to begin with is the 2-5-3 method of pricing[1]. Its simplicity makes it a good starting point for any business reviewing how it prices professional services such as financial planning.

The '2' represents the objectives you should keep front of mind, the '5' relates to the factors to be considered in the pricing decision, and the '3' are the decisions that need to be made.

2 Objectives	5 Factors	3 Decisions
Profit Maximisation	Cost	Structure
Client Agreement	Client Value	Level
	Competition	Pitch
	Capacity	
	Connection	

2 Objectives

Profit Maximisation

Most professional services firms look to target a net profit margin of 30%. You can maximise profit by providing value to your clients – you don't have to focus on being the cheapest in the market.

Client Agreement

The client needs to perceive and understand the value you provide, and ultimately say yes to your offer.

5 Factors

Cost

To accurately price your services you need to understand the cost of providing them. It can be very easy to over or underestimate the time taken to prepare financial plans for clients. Getting this wrong means you will be cross-subsidising client fees. You should try to accurately track the amount of time taken for each task (super rollovers, Centrelink, pensions etc.) and monitor who conducts each of these tasks. You should also factor in other direct and indirect costs such as rent, utilities, costs of technology (Xplan, Microsoft, cyber security), professional indemnity, dealer group fees and any other consumables such as advertising and paid social media strategies.

Competition

You will likely be compared to others, so you don't want to price yourself out of the market. Think about how competitors set their pricing.

Client Agreement

The client's perception of the importance of your services to their life will affect their price sensitivity. How do you express your value? Do you have an investment philosophy, can you outline what you do, how you do it, and the benefits it creates?

Capacity

Consider lowering your Net Profit Margin goals if you and your team have spare capacity. Until you are at full capacity this can be a useful strategy, and hopefully those clients on lower fee scales will be prepared to pay a higher level of fees once they have experienced your services.

Connection

build connection with your clients and it will feed into your bottom line. Existing clients who are happy are more willing to refer friends and family. As you get to know your clients and their situation more intimately it will be easier to add value and justify your fees.

3 Decisions

The next three decisions are all interlinked.

Price structures

In accounting and legal practices pricing is still primarily time-based. Many advice firms on the other hand have adopted an AUM %-based fee or fixed fee services. Each of these options has advantages and disadvantages.

Price levels

Within each of these options there will also be a price level, for example a Platinum package at $5,500 or an hourly fee of $350. There may also be an upfront cost to cover the plan presentation.

Pitch

The last decision is about how you pitch your price. Your pitch should optimise value, offer pricing options and have a framework. Consider what your CVP is and what it is you do for clients that makes your services valuable.

[1] www.pricehighorlow.com/blog/2-5-3-method of pricing professional services

Cost-Based Pricing

Whether you are using flat fee, cost plus, or a %-based AUM, understanding your cost to serve will give you a better indication of how much you need to charge to cover your costs.

When estimating fixed costs per client you calculate your entire amount of fixed costs and then divide this figure by the maximum number of clients your business can service. As a rule of thumb, most businesses believe that 120 clients per adviser is the ideal amount. Of course, if you have multiple advisers in one business you may benefit from economies of scale with fixed costs falling.

Consider the following example of fixed and variable costs:

Fixed Costs	Sum per annum $$
Rent	$40,000
Telephone/Internet	$2,500
Gas/ Electricity	$3,200
Dealer Group/ Compliance Fees	$50,000
Cyber security	$5,000
Professional Indemnity	$20,000
X-Plan/ Software Tools	$15,000
Tea/Coffee/ Client meals/Office supplies	$1,500
Equipment leasing	$2,400
Web Development	$5,000
Education – Kaplan/Professional Development	$1,200
Marketing/ Client Events/Social media	$5,000
Total fixed costs	$150,800
Capacity clients	120
Fixed cost per client	$1,256.00 per client

You can take a similar approach to the variable costs involved in a financial planning business. The main variable costs for any service business are staffing. We have used an average working week of 40 hours with 46 weeks per year available (public holidays and annual leave).

To accurately gauge staffing costs you should consider the activities that each staff member is involved in for each level of service package that you offer. This may include research, fund manager updates, implementation, platform administration, dealing with external bodies such as the ATO/Centrelink, client seminars and webinars and ad hoc queries. You should also consider the complexity of the client's situation, as dealing with trusts, companies, charities etc. with complex needs will be far more time-consuming.

Staff	Annual Salary	Cost per Hour	Time Spent on Client	Cost per Client
Para-Planner	$90,000	$48.00	10 hours	$480.00
Financial Planner	$180,000	$96.00	7 Hours	$672.00
Admin Staff	$65,000	$19.00	2 Hours	$38.00
Total				$1190.00
Plus Fixed Costs				$1256.00
Total Cost to Serve				$2446.00
Plus 40% Margin				$978.00
Total Required Ongoing				$3,424.00

Value-based pricing

Whereas the previous approach worked from the starting point of cost, value-based pricing is a concept whereby the price charged to clients for your services revolves around the perceived value of the services rendered to the client. It is a reflection of consumer perception – as opposed to being derived from your cost to serve. The bigger the benefit to the client (and the more you can substantiate this) the more you are able to charge.

When it comes to demonstrating value it's useful to remember that clients will more easily see value in services that they directly experience. This means that tasks such as investment research, para-planning, and platform administration will not be valued by clients unless the effort involved in these activities is explained to clients. If a large part of your value proposition relies on investment selection and monitoring of investments, you will have to work even more diligently to express your value, as much of this work is not seen by the client.

Value is much easier to display when it feeds into how a client can achieve their financial aspirations – you can do this by modelling the client's outcomes pre and post your advice.

We can often fall into the trap of underestimating value because we undertake tasks so often.

As an example, we may complete hundreds of risk profiles per year with clients. Because we undertake them so frequently, this exercise may lose its value to us, but we need to remember that a client will undertake this only once a year. Having the chance to understand their own risk profile and resulting asset class mix is incredibly valuable – it's just up to us to remind clients.

Here is a short list of functions and roles you fill that add value for clients. By bringing these tasks to your client's attention they will have a stronger appreciation of the value you provide.

Client education

- Client seminars/webinars
- Behavioural coaching - staying invested for the long term
- Education and management around legislative changes (budgets etc.)

Investment analysis

- Financial modelling and forecasting
- Review and research of funds/ETFs/SMAs
- Investment administration
- Cashflow and investment projections

Practice management

- Ensuring data security

Bespoke client solutions

- Risk profiling
- Ensuring correct asset allocation
- Estate planning and protection
- Provision of correct asset allocation advice
- Asset and lifestyle protection in the event of illness/death/injury
- Investment portfolio monitoring and rebalancing
- Debt reduction strategies
- Goal setting, tracking and management
- Maximising tax effectiveness

Lastly, don't be afraid to attribute a dollar value to the strategies you have implemented. This will further cement the concept of value to your clients. By outlining tax savings for strategies like investment bonds, concessional contributions or spousal rebates, clients can see the real dollar benefit you are providing.

Summary

Pricing decisions will have a large impact on the profitability and sustainability of a business, and as such deserve considerable analysis from any business owner. Whilst they can be altered and amended over time to suit the changing characteristics of a client base, it is far easier to prescribe the correct methodology from the start.

Factors such as stage of life, client demographics, business capacity and current industry regulations should all be considered. For further help please contact our Practice Development Manager.

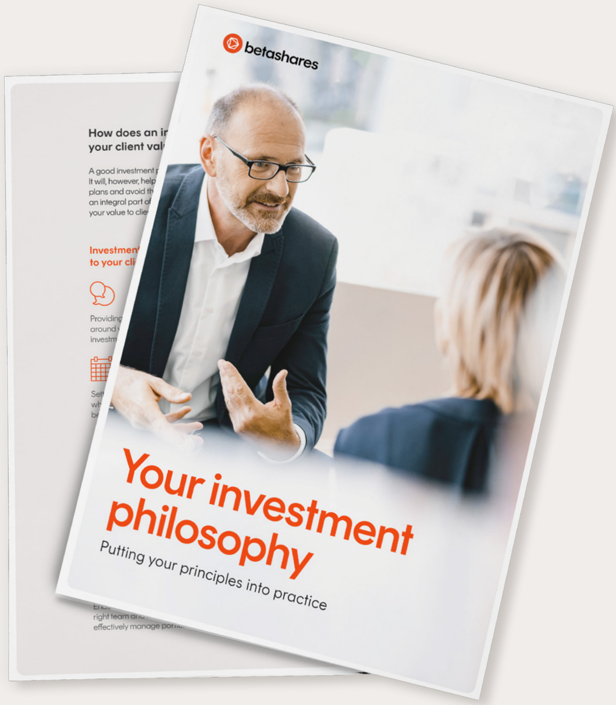
Discover more

Betashares Practice Development

Tools and insights to help you run a more efficient practice
and deliver better client outcomes.

'Practice Makes Perfect 'video series

Adviser Resources



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