Building a successful fee-based advice practice

For investment professionals only – not for retail investors.
Contents

2 Supporting the advice profession
4 RDR: challenges and opportunities
6 Facing the challenges
12 Five building blocks to a valuable business
14 Achieving profitable growth
18 Ensuring client loyalty
22 Defining a compelling client promise
24 Keeping your promise
28 Aligning your people
32 What next?
Successful fee-based financial advice businesses around the world exhibit a number of shared themes and characteristics that lead directly to their ongoing, sustainable success. This guide provides an introduction to these common success factors to help you meet the challenge of the changing business landscape in the UK.
The changing business landscape

Based on conversations with advisers throughout the UK, we know that you face numerous business challenges. These take many forms, including tough economic times, changing regulation, turbulent markets and the erosion of trust in the industry.

Helping you navigate change

The Vanguard Group works closely with successful fee-based advisers in the US and Australia, where the transformation from commission-based financial advisers to fee-based advice practices began several years ago. Based on that experience and conversations we've had here in the UK, we've written this guide for the benefit of the IFA market, which is undergoing a similar journey.

*As at 31 March 2010.
RDR: challenges and opportunities

The Retail Distribution Review (RDR) signals groundbreaking changes for your business. It is here and it’s not going away. It’s joined by an array of other regulatory, commercial and competitive challenges that are transforming the IFA landscape.
A product-sales model is no longer effective

At its most basic it means that advisers will have to change from selling products to building sustainable, chargeable advice practices. We hope this guide will help you as you face this challenging but potentially very rewarding transformation.

Change requires knowledge, discipline and determination

But the challenge is also an opportunity for those practices willing and able to adapt to the new environment and adopt new business models. Change is possible, but takes a disciplined, determined approach. Some firms have adapted already and it appears that it’s not the biggest firms that will survive and succeed, but those best able to adapt. Those that have made the change have created real value for business owners, their staff and their clients.

Where do you go from here?

The first step is to truly come to grips with the nature of the challenges and the resulting shifting paradigm of financial advice in the UK.
The changing terrain of the UK advice profession is making it more difficult for the advice practitioner to demonstrate their real value. Advisers face a number of very specific challenges that require a concerted and energetic response if they are to survive and thrive in a changed world.
Challenge one: Increasing competitive pressure

The internet

By making information and financial product comparisons so readily available, the internet continues to raise both awareness and understanding of financial products. Blogs and forums also offer opinions that sound an awfully lot like advice and many people take that ‘advice’. As a result, clients (or potential clients) believe they are well informed and therefore may be reluctant to seek (and pay for) advice when they can access so much information for free.

Product simplification

Many of today’s financial products are simpler than they were in the past. As a result, clients may feel less inclined to seek guidance through the process of understanding and selecting an investment. Advisers who merely offer a comparison service may find themselves left behind by competition from the internet.

More qualified advisers

The Financial Services Authority’s Retail Distribution Review (RDR) means that more advisers will gain qualifications. This may mean that those advisers who relied on qualifications as a differentiator will lose their competitive advantage.

What we’ve heard advisers say...

“Our clients don’t really know what we do”
“I find it hard to attract new clients”
“My clients now do their own thing”
“Now they just look it up on the web”
“My qualified staff moved to a new firm”
Challenge two: Getting clients to pay for good advice

Fee for service

The Retail Distribution Review (RDR) intends to ban all commission and rebates, meaning advisers will have to charge their clients an explicit ‘fee for service’. Previously many clients may have perceived ‘advice’ as free when buying a product. This means that advisers making the change face having difficult conversations because some clients don’t perceive enough value in the service they receive.

What am I paying for?

Among other services, advisers used to add value by analysing and comparing sophisticated investment products. However, increasing financial knowledge as a result of the internet and product simplification have removed the ‘mystique’ and eroded the value of that sort of service. Consumers are asking what exactly they’re paying for and if they should pay at all.

What we’ve heard advisers say...

“My client was surprised that I have started charging him”

“My client has questioned my fee level. He never has before”

“I’ve just lost a client to an adviser who’s offered to do it cheaper”
Two sides to a difficult issue

The regulator monitors the adviser industry carefully in light of past mis-selling scandals, abuses and misunderstood risk. For their part, advisers tell us they sometimes feel overwhelmed by regulation, even as they do their best to meet regulatory requirements.

Problems with different approaches

Taking a principles-based approach among staff, with no heavy restrictions or rules can result in inconsistent outcomes. On the other hand, introducing defined risk controls can introduce ‘systemic risks’ into the equation, a further level of opaque and difficult-to-analyse risk.

What we’ve heard advisers say...

“I dread a regulatory visit”

“It’s all meaningless box ticking”

“It takes us hours to prove we do the right thing”

“I’m worried about what my people are selling”
Challenge four: Creating business value

Value

Some advice practices focus on finding new clients and not enough time locking in future revenue streams by building client loyalty. As a result, some overvalue their business based on large one-off past sales. However, real value only flows from sustainable future profit. Without visible and predictable revenue streams, a business is unsustainable and therefore virtually worthless.

Planning

A number of advisers fail to plan their growth and exit strategies and when the time comes, they become forced sellers. Many also fail to plan adequately for succession of key personnel, usually the principal. This normally goes hand in hand with being wholly dependant on the principal for the day-to-day functioning of the business. In these cases, when the principal is no longer there, the business is worthless.

What we’ve heard advisers say...

“If I’m not here, my business is worthless”

“I don’t understand where my profit comes from”

“I don’t spend enough time planning”

“We’re too reliant on finding new clients”
Challenge five: Dealing with change

Spend time ‘on’ the business

Traditional ways of doing business are deeply embedded, making it hard to change. Advisers also find themselves under time pressure to attract new business and fail to spend time ‘on’ the business of managing the firm.

Difficulty in making painful personnel decisions also hampers change, as does the challenge of putting changes in place that incentivise staff to change.

What we’ve heard advisers say...

“It’ll never work”
“It didn’t work last time”
“If it isn’t broke, don’t fix it”
“I don’t have the time”
“It’ll be all right”
Five building blocks to a valuable business

Hopefully this discussion of the challenges facing the UK IFA industry has lead you to think about how you can succeed in the new environment. One way to answer this question is to look at successful fee-based advice practices here and overseas, and identify any common factors.

A valuable business

- Achieving profitable growth
- Ensuring client loyalty
- Defining a compelling client promise
- Keeping your promise
- Aligning your people

Each block depends on the one below
These five related and interdependent factors that seem to typify a successful advice practice rely on each other to work effectively. They are the same for any successful business, but have some very specific applications for financial advisers. Successful practices do all of them rather than picking and choosing. They tell us that each of the five factors depends on the others for success – lose one and everything else falls over.

We examine each in detail, but first we need to define what we mean by a ‘valuable business’.

Understanding real value

Only you can define what value means to you because it goes beyond the quantifiable assets of the business. But one thing we have observed is that in successful practices, both clients and owners enjoy equal value in the business. In other words if the clients don’t value the business, you won’t have them for long. We’ve heard from successful practices that there are no short cuts and that long-term business value is only built by having happy clients.

Client value

Things which clients value in an advice business may include:

**Understanding** – the practice truly understands what they want from their investments and their life.

**Representation** – the practice forcefully and faithfully represents the client’s interests.

**Honesty** – clients rightly expect advice to be honest, transparent and clear.

**Follow through** – clients will always see value in a practice that always does what it says it will do.

Owner value

Many owners have got the message and have remodelled (or started remodelling) their business to focus on better client outcomes. But what about their own outcomes? It’s OK to be ‘selfish’ in defining your own life goals, as this brings a focus to why you’re in business. The sooner you understand why you’re really in business, the sooner you can structure your business to achieve it. Whether your ‘reason why’ is to fund your retirement, leave a legacy to your family, service the community or just have fun, understanding the ‘why’ guides and gives energy to the ‘how’.
Many businesses focus their energies on increasing turnover, attracting more clients, hiring more employees and renting larger offices. But growth alone doesn’t guarantee profit – and ultimately, only profitable growth makes a valuable business. In order to achieve profitable growth it’s important to understand where profit comes from in your business, and then how to grow it.
Avoid growth for growth’s sake

Successful advice practices appear to generate the majority of their income through ‘sticky’ repeated transactions, rather than through a single transaction with a ‘new’ client that they never see again. They avoid the trap of spending all their time and resource on generating growth for growth’s sake, and instead focus a considerable portion of their energies on making their existing client base more profitable. Big doesn’t always mean profitable. Becoming profitable means creating repeatable, low-cost revenue streams.

Repeatable revenue streams

Locking in future profits requires that you figure out how to persuade clients of the value of your service not just once, but continuously. You can only do that by providing a service that clients understand, value and enjoy.

Profitable growth comes from ensuring that you take on new clients that you can service effectively at the promised price. Successful firms resist the temptation to take on every client that comes along, and certainly not those who demand a promise beyond your means, or at a cost that destroys your profitability. In some circumstances, you may wish to cease servicing clients who are not prepared to pay your fee for service or are demanding a promise you can’t fulfil.

Growth can also come from existing clients who are prepared to pay more for extended and new services as you introduce them. To do that you need to only take on those that you can effectively service in the first place.
Low-cost revenue streams

Repeatability and low cost go hand-in-hand. High frequency tasks can be automated to deliver both cost efficiency and consistent outcomes for clients. Efficiency increases profitability, while consistency leads to higher quality and a better customer experience. The trick is to work out the best possible ‘promise’ (proposition) that can be delivered for the lowest acceptable cost, without compromising on quality.

Comparing high and low long-term profitability.

Growing a profitable business rests squarely on creating client loyalty. The next section examines how successful practices go about doing that.
Efficiency increases profitability, while consistency leads to higher quality and a better customer experience.
Ensuring client loyalty

Keeping an existing client costs a lot less in time and resources than it does to get a new one. As we have seen, profitability rests on repeatable, low-cost sources of revenue. This requires that you focus as much on retaining clients as you do on getting new ones – and retaining clients means always keeping your promises.
Loyalty rests on satisfaction

Successful firms tell us that they spend a considerable amount of energy understanding whether or not their clients are satisfied. They know that it’s easy to mistake apathy and inertia for client satisfaction. The fact that the client hasn’t left yet is not the same as loyalty.

Someone who once bought something from you is not the same as someone prepared to pay you a fee many years into the future. How many of your clients would, or have, recommended you to others? Perhaps this is the truest test of client satisfaction.

Trust and reliability

If you think about the people you consider loyal, or that you are loyal to, those relationships probably rest on a secure foundation of mutual trust. To secure your clients’ loyalty you simply must be worthy of their trust.

The fee-for-service advisers that do this most successfully are those that clearly communicate their fee-for-service model and are absolutely transparent about their charging structure. This goes together with educating clients that the fee-for-service model means that you are acting solely in their interests and no one else’s – no one is paying you a commission and you are there to serve them.

Many studies have shown that the main cause of client dissatisfaction is lack of service delivery, or to put it another way, not keeping the implied promise to the client. Why is this? In some cases, failure is due to mis-aligned incentives. ‘Salespeople’ are there to sell, not service, so promises of great after-sales service often don’t materialise. In other cases, the implied promise is poorly delivered.

Perhaps the most commonly broken promise centres on ‘investment performance’. The financial advice world is littered with advertising and marketing that implies a promise of better performance, but few actually deliver, especially over the long term.

So how do you ensure both the reality and perception of reliability?

- Make the promises your clients wants.
- Make sure you only make promises you can keep.
- Organise yourself in a way that ensures you do keep them.
Your ‘promise’

Generating client loyalty also means communicating clearly about what your business can do for them.

‘Advice’ means different things to different clients and advisers. Your clients may not know exactly what types of financial advice they need – and importantly they may be unaware that your business can offer more than one kind of advice.

Clearly defining what you offer and how, sets you apart. This clarity also helps you demonstrate your value. For example, your expertise may lie in life coaching, financial planning or investment management. The focus for each of these is quite different.

<table>
<thead>
<tr>
<th>Life coaching</th>
<th>Financial planning</th>
<th>Investment management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td>Helping clients discover what they really want from life and how defining clear goals and having discipline and a clear financial plan can help them achieve this.</td>
<td>Working with clients to help them understand the fundamentals of investing, creating a financial plan to meet their goals and sheltering assets in tax efficient products where appropriate.</td>
</tr>
</tbody>
</table>

At its root, what we’re talking about is delivering on promises. Successful firms don’t leave delivery to chance; they systemise and embed service excellence across the firm.
At its root, what we’re talking about is delivering on promises. Successful firms don’t leave delivery to chance; they systemise and embed service excellence across the firm.
Defining a compelling client promise

The first step towards delivering excellent service is having a clear understanding of what you’re promising whether you make a direct or implied promise. Then you set out to ensure that you keep it.
Controlling the outcome

Many advisers implicitly based their client ‘promise’ on an uncontrollable outcome, such as the performance of their chosen asset classes and managers. But as they have found over the last few turbulent years, ‘performance’ based promises can quickly and easily destroy credibility.

Successful advisers have learned to anchor their service promise only on things they can actually and confidently predict and control.

Focus on client needs

Your service promise should focus unfailingly on the client’s real intent and everything you do should be a means to the client’s end.

You can demonstrate this to your client by relating your actions explicitly and clearly to your promise ... “As promised here is your quarterly review statement. Let me talk you through it, in light of your plan to retire five years early.”

Remember that perceptions are built up by repeated experiences. If you continually exceed service expectations by delivering on your promises again and again, you will create powerful client loyalty.

A trustworthy business

For your business to be truly valuable, your clients must trust the whole business, not just you. So if you decide to sell it or grow in-house successors, the client value remains. In most successful practices, clients don’t notice that the owner has moved on. This requires flawless, systemised execution in order to keep the service promise.

Beware of overpromising

It’s tempting to believe that the more the client pays, the more you should promise and deliver. Best practices, however, tend to work on ensuring that they keep their promises to a credible minimum. They have found that the longer the list of promises, the less credible it becomes. Clients begin to doubt whether a firm can really deliver on all those promises. Instead, create a short, achievable promise and exceed it, rather than a complex implausible one that fails. The trust clients put in your brand results from an accumulation of your successes, not your failures.
Keeping your promise

Having made a deliberate promise to your client, you have to keep it. Even the smallest failure to deliver what the client perceives to be your promise will erode trust.

Value creation

A valuable business
Achieving profitable growth
Ensuring client loyalty
Defining a compelling client promise
Keeping your promise
Aligning your people

Each block depends on the one below
Planning to deliver

Delivering on your promise depends on knowing what is involved in making it happen. Each step of the process should be understood, planned and resourced. So understanding your firm’s talents and capabilities should inform the promise you make to your clients in the first place.

Start with the outcome

Starting with the promised outcome, ask yourself “What will it take for that to become a reality for my client?” Working backwards will highlight the dependencies involved for each step to become a reality. This ‘process mapping’ can prove invaluable in uncovering gaps in the ability to deliver what’s needed, or identifying outcomes that are out of your control and therefore a risk to the client promise being met.

Automate high frequency tasks

Identifying the key activities will also highlight those tasks that will be undertaken with high frequency. This can help to identify those tasks where automation can have its greatest benefit. Using tools and systems to ensure high quality frequent output is the key to consistent delivery and performance. More precious resources, such as your talented staff, should focus on managing the complex, personal interactions that will add value to the client relationship.
Control costs

As we discussed earlier, successful firms build a profitable business in part by keeping a keen eye on costs. Identifying the key processes involved in meeting your client promise makes it possible to calculate the cost of delivering the service.

For example, one of the key high volume repeat processes in the business will be the regular client review. You can identify what it takes to deliver the review service promised, and then the approximate cost for each review. This should prompt a few questions such as:

- How can I deliver that part of the promise more efficiently, but without compromising my promise?
- Does my fee structure reflect the reality that my clients experience?
- Do I always do what I say I will do, on time, every time?
- Do I fully understand the actual cost of the promise I am delivering?

Clients’ willingness to pay your ongoing fee for service depends on your answers to these questions.

Perception and reality

Regardless of what you want your brand to be, what it says in your introductory brochure or what your website says, the reality is that your clients will judge you based on your actions, not on your words.

There can be no permanent gap between the image you project and the reality your clients experience. Doing what you say you will do, on time, every time is critical to building loyalty with your clients. Their willingness to pay your ongoing fee for service depends on it.

Delivering consistently flawless execution depends on more than simple automation; it depends unfailingly on high performing people within your business who are aligned to you and your clients’ goals. Now we’ll examine the people aspect of developing a valuable business.
Doing what you say you will do, on time, every time is critical to build loyalty with your clients. Their willingness to pay your ongoing fee for service depends on it.
Aligning your people

Clients only experience repeatedly flawless execution and service excellence when highly competent people are highly motivated to deliver it.
Motivating high performance

So how do you know if your people are motivated?

The most important factor appears to be that they understand the nature of their business, which is to meet the client’s real intent, not the individual task or role. In other words, they understand why they do what they do, not just what and how.

They are client focused and take pride in serving them successfully. They also understand the interdependent nature of the fulfilment process and their part in it.

Aligning incentives

Aligning incentive plans with client satisfaction is the key. In other words, salespeople who overpromise should not be rewarded, nor should ‘services’ that don’t help meet the promises you make to clients.

The most successful practices measure and reward people for things that really matter. They know that you always get from people what you measure and reward. They ensure that measures and rewards clearly match the critical tasks that are required to meet the client promise.
Training and development

The most successful practices never scrimp on training and development and ensure that all staff are equipped to execute their responsibilities.

They put processes in place that ensure that all staff meet an acceptable minimum standard. They also support any and all learning and development that is required to deliver the client promise.

Leadership

**Focusing on building the business**
We’ve also noticed that leaders in successful practices spend time working ‘on’ the business, not just working ‘in’ the business. Getting this balance right is a common but crucial challenge for business owners.

They do this because they know that success rests on creating vision, pride, goals and setting success criteria, while stepping back from the day-to-day task focus.

**Embracing and managing change**
A key function of leadership involves proactively addressing concerns from their staff. Most people naturally fear change and allaying that fear requires a concerted effort.

Successful leaders of successful practices don’t shy away from difficult decisions. They know that to deliver on their service promise to the client, they may have to change their process or even their people.
The most successful practices measure and reward people for things that really matter. They know that you always get from people what you measure and reward.
What next?

Successful advice practices the world over exhibit the characteristics and activities detailed in this guide.

Look for further guides in the future, which will explore these topics in greater detail and provide some practical tools to help you build a more successful fee-based advice practice.

Thriving post-RDR

Building a viable, sustainable and valuable business in the post RDR world will force broad changes upon the industry, and not just in terms of fee structure. It may require you to completely realign your business.

Locking in future profits requires that you provide an ongoing service that clients value and enjoy. This will convince them to pay for your service not once, but often and ongoing.

We are here to help

Vanguard Asset Management, Limited is committed to supporting advisers and practices through this transformation. If you found this information useful, you may want to visit the Adviser Support section of our website.

Better yet, why not give us a ring? We’d like to hear about what sort of information or resources would be most helpful to you as you work to build a valuable advice practice. Contact Vanguard Adviser Support 0800 917 5508, or visit vanguard.co.uk.
Important information

This document is directed at investment professionals in the UK only and should not be distributed to, or relied upon by retail investors.

This document is designed only for use by, and is directed only at persons resident in the UK, material contained in this document is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information on this document does not constitute legal, tax, or investment advice. You must not, therefore, rely on the content of this document when making any investment decisions.

Issued by Vanguard Asset Management, Limited which is authorised and regulated in the UK by the Financial Conduct Authority.

© 2013 Vanguard Asset Management, Limited. All rights reserved.