Professional Adviser

Jonathan Fry: A fair day's pay for a fair day's work

A different approach to client charging

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For many years, the pricing structures of the vast majority of advisory firms have remained relatively stable but, argues Jonathan Fry, nobody should take it for granted that this state of affairs will continue

If there is one important lesson, I have learned during my time at the coalface of running an advisory business, it is that people vary considerably in the way they understand price and value.

Consider Hargreaves Lansdown and St James's Place, for example - both have built substantial businesses, yet each has a very different approach to pricing. For many years, particularly those prior to the implementation of the Retail Distribution Review, Hargreaves was hugely successful in attracting customers with its simple - and unrelenting - message: dealing direct would cut out the middleman and save the investor money.

St James's Place has meanwhile taken a very different approach. Far from cutting out the middleman, it has placed personal relationship with its advisers, rather than price, as the foundation stone of the company's value proposition.

Whilst I am aware of the view of many independent advisers that SJP's approach to charging plays a clever game of smoke and mirrors, we cannot deny that, with £100bn of assets under management, and more than 3,500 advisers, the company is a very significant player in the UK financial services market.

When it comes to the design of a viable fee structure, there is no one-size-fits all solution which can applied to all firms, and which will be appropriate for all clients. For many financial services businesses, including asset managers and private banks, the traditional - and most widely used - fee structure, remains a charge based upon a percentage of assets under management. It is a simple model, easy to calculate and relatively straightforward to administer.

We can see the attractions - particularly from a commercial perspective - of this model. At a time when technology is having a transformational effect on the wealth management industry, we might ask whether this charging structure will remain unchallenged. Does it have a long-term future? If so, at what price, and how should that price be calculated?

Clients vary hugely in their understanding, but I have found they are increasingly becoming more demanding and more discerning. The argument from many of the new entrants to the industry, particularly those focusing on a tech-savvy generation, is that the traditional adviser-client proposition will become harder to justify as emerging digital platforms can offer similar services at a fraction of the cost.

I understand this argument for less complex financial products but my best guess is that, while we will see further downward pressure on pure investment management fees, for clients with more significant assets and more complex needs, there will continue to be a willingness to pay for professional advice and high-quality personal service.

There can be no room for complacency here, though, and the challenge for those of us designing client propositions is to ensure we properly understand the costs involved in delivering the services our more discerning clients are demanding.

Our client proposition has evolved, based upon the feedback received from clients as to the services they would like us to provide. We adopt a modular approach, which enables us to tailor the range of services around an individual family's needs.

We describe ourselves as a family office as it best captures the ethos of the business and holistic nature of the client relationships. Fundamental to the ongoing relationship with our clients, we provide a trusted adviser service, which is completed by investment advice, aggregated reporting and administrative support. We use our consultancy service, where we are asked to take on larger, more time-consuming projects, including estate and wealth planning, and assisting clients with decision-making regarding their business assets.

Providing a wide range of services for clients with complex needs means we must have an effective way of understanding our underlying costs to be able to calculate a fair price for the work involved. While operating a hybrid fee model that incorporates different methods of charging, we record all our time, both on client and non-client related activities.

This provides us with an invaluable insight into the cost of each of our client relationships. It also acts as a valuable ‘sense check' - to ensure we can have an open dialogue with clients about the level of fees we should be charging in exchange for the services we deliver.

For firms offering a scalable service to mass affluent clients, with a relatively standardised combined financial planning and investment proposition, a simple fee structure that is based solely on a percentage of assets under management may continue to be a successful business model.

Time spent is not the only yardstick but, for those firms that are focused on higher net worth clients, with more complex needs, requiring a more bespoke proposition, there will need to be careful thought given both to the design of the services on offer, and the commercial calculations that form the basis of a transparent fee structure. Meeting the expectations of demanding and discerning clients, while maintaining the sustainable profitability of the business is a far from simple task.

A positive view

Taking a positive view, this creates significant opportunity for firms to design fee structures that can be tailored to the needs of their individual clients. When it comes to client service, going the extra mile is an essential element of a maintain long-term relationships. Coping with ‘mission creep' can, however, be one of the biggest challenges in clearly defining the scope of the services provided within the cost of the agreed fee.

The traditional percentage of assets under management model has, in the past, benefitted from an element of cross subsidy. Whether an adviser has two meetings with one client, or three or four meetings with another, may not been a critical issue.

A relatively relaxed approach to understanding the costs associated with supporting individual clients, may have in the past worked in the financial services industry, but would be unimaginable in the profitable operation of a hotel chain, or an airline, where every aspect of the service has a price that has been carefully costed.

As we see client service being transformed by technology - no longer being focused largely on one-to-one meetings, but including more frequent touchpoints enabled by digital platforms - this will require firms to have a greater understanding of how and where costs are being incurred, including the time spent and the resources committed to individual clients.

For many years, the pricing structures of the vast majority of advisory firms have remained relatively stable. We should not take it for granted that this will continue. At a time of rapid change, when new entrants are seeking to capitalise on the opportunities offered by digital technology to refine and personalise the customer experience, we will need to pay greater attention to understanding the cost of providing the services we offer and be able to clearly explain, and justify, the basis of our pricing as it relates to each one of our clients.

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