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bridging the gap...

Session 3 – Graham Peatey

"Price for Value…Building the Right Pricing Model for your Business"

the age of speed…

how to operate in the new environment

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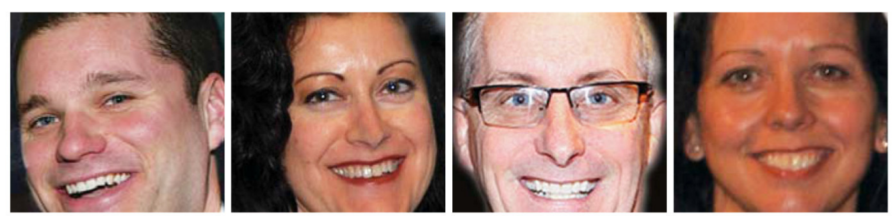

“Price for Value”

Building the right pricing model for your business

“Until you value yourself, you won't value your time. Until you value your time, you will not do anything with it. ”

- M. Scott Peck

Presented by: The Encore Group

Practice Proposition

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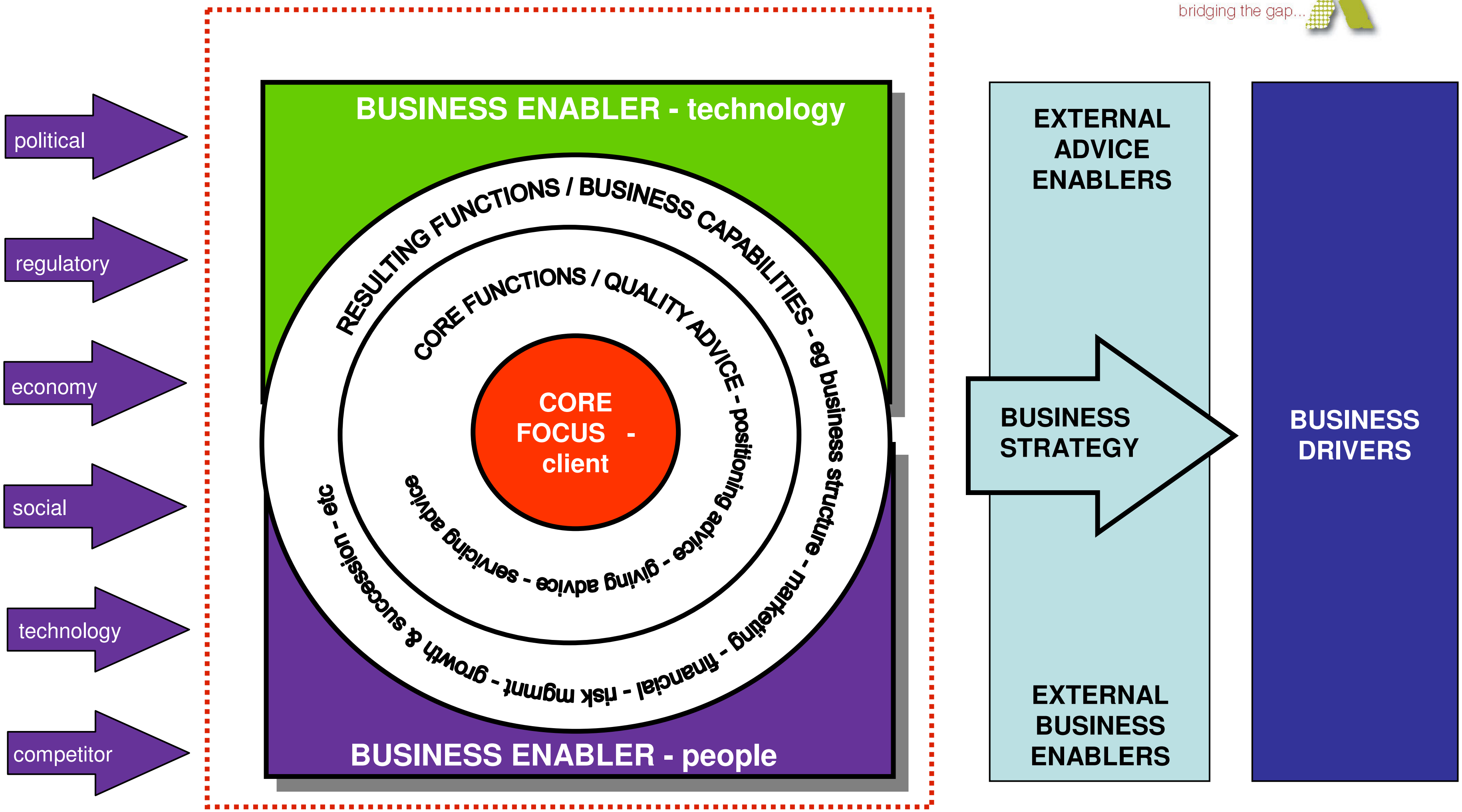

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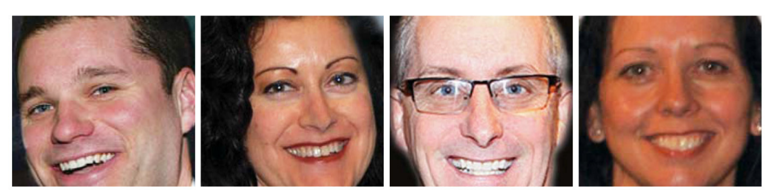


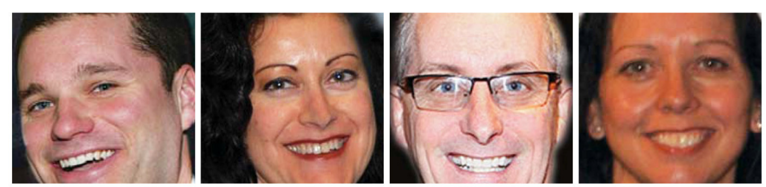
THE PRICING DEBATE

"I've always thought it was a little absurd that managers & advisers are paid on an a commission basis, rather than a fee for service, or a flat fee..

...... An adviser taking a trailing commission is in my view a leech. He's hooked onto a vein, and in this case it's mine!"

Iain Thompson, director of Corporate Governance International

(Source: Australian Financial Review 2/11/02 'Money Managers Talk Tough`)



MARKETING BUILDING BLOCKS

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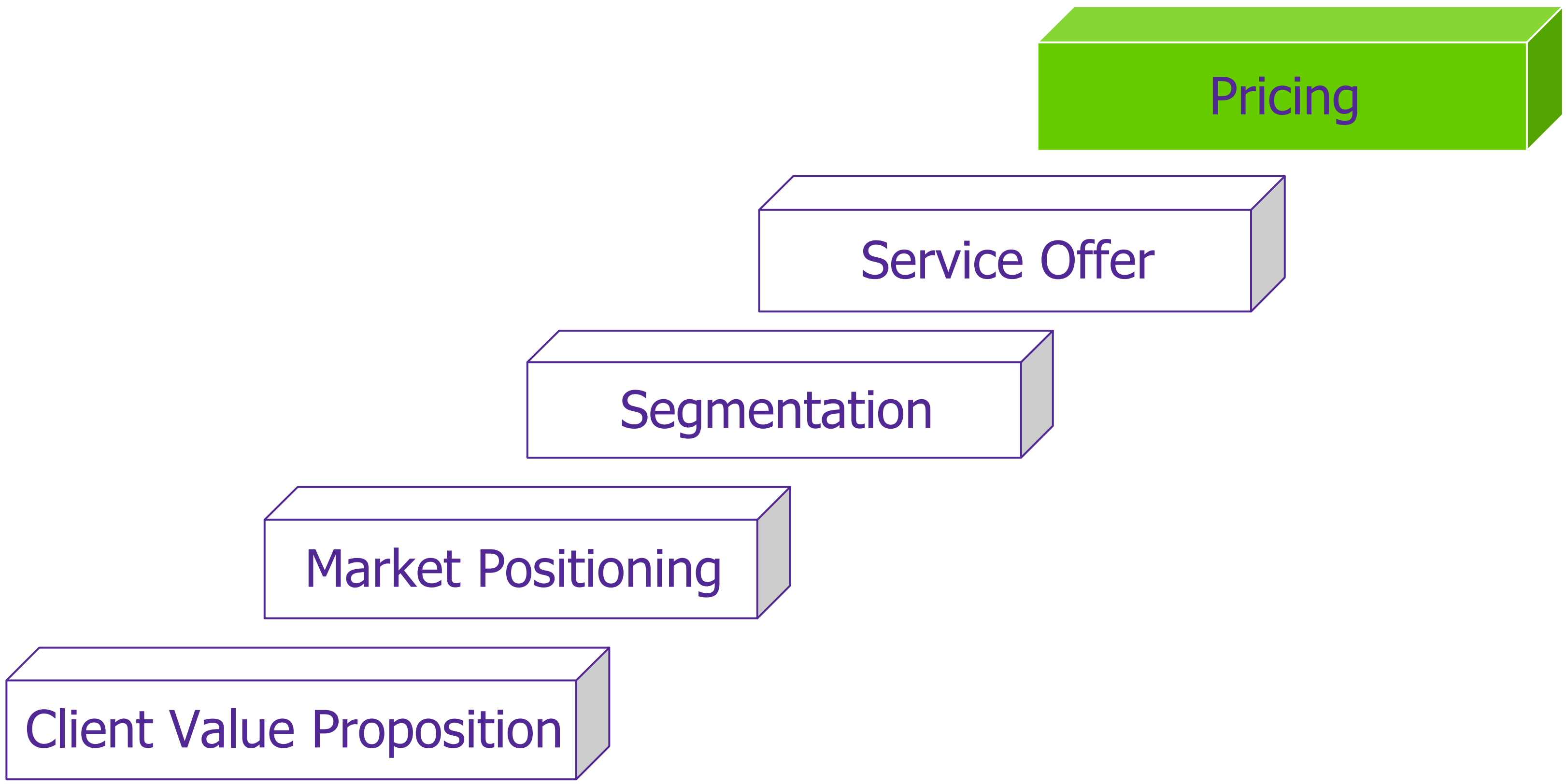

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PRICING STRUCTURES

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1. Issues Based	• Clients who only want to pay for specific services, deal with specific issues • Per hour rate for adviser & support time
2. Packages	• Packaged services priced at the value they represent to a client. Known cost before engagement, that is value for a client
3. Stages of Advice	• Price established for each stage of the FP process – Initial meeting/Advice, SOA production, Implementation, Ongoing Care
4. Complexity	• Set price to deal with differing levels of advice – basic, advanced, complex • Ongoing fee structured separately
5. Pick 'n Flick	• Full menu of services listed, priced on a cost plus basis • Client chooses what they think they want

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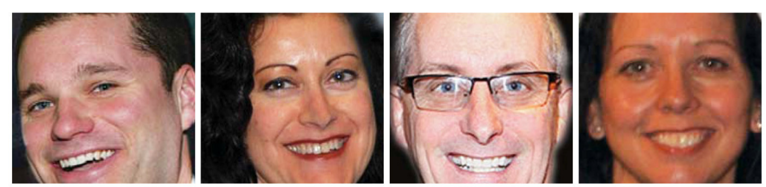


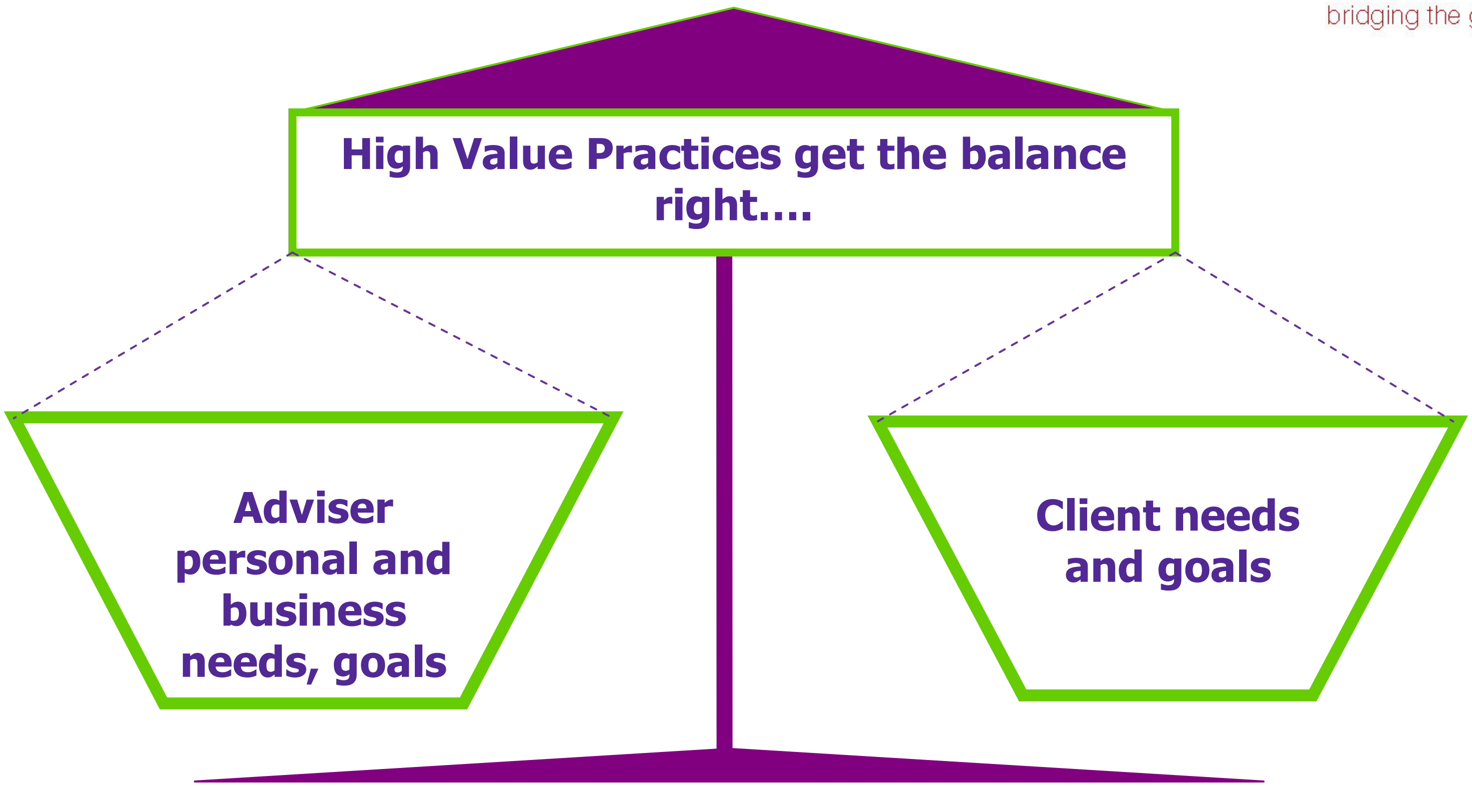
THREE KEY ISSUES

TRANSPARENCY	•How easy is it for the clients to see and understand your Pricing Structure and what are they willing to pay? •Clients generally like to know up front what their commitment will be and do not like hidden fees and charges. •Exactly what is the client getting for the money paid?
EASE OF COMMUNICATION	•How complex is the Pricing Structure to explain? •The easier and more transparent, the clearer it will be for your clients to understand and evaluate.
OBJECTIVITY	•Does your Pricing Structure give the perception to clients that you have a vested interest in advising one product or another, or one strategy over another? •Most advisers want to maintain the perception (and reality) of objectivity, the advice given meets the client's goals and objectives, irrespective of incentives for which advisers may be eligible.

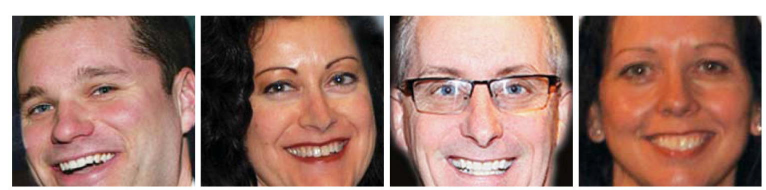
QUESTIONS…

- Are all clients worth the same to you?
- Do all clients receive the same level of service?
- Are you reacting to client requests or selling a valued service?
- Is your time focused on your most valuable clients?
- **Are you making a profit on every client?**

CLIENT VALUE



Your existing customers have a value to you which is worth a fortune. In marketing jargon, it is called the LVC, for lifetime value of a customer. This is the value of a customer during their lifetime with you. Ian Kennedy



DISTINGUISH VALUE AND PRICE

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VALUE ← WHY

PRICING ← WHAT & HOW

strategy → structure → method

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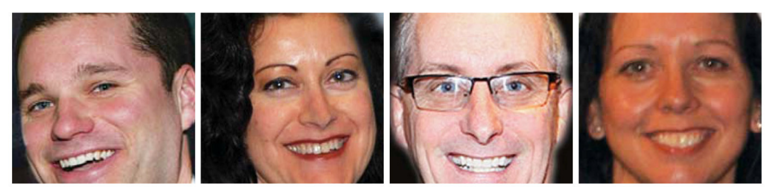

LINKAGES

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CLIENT VALUE PROPOSITION

Answer the question "Why do clients deal with us?"

SEGMENTATION

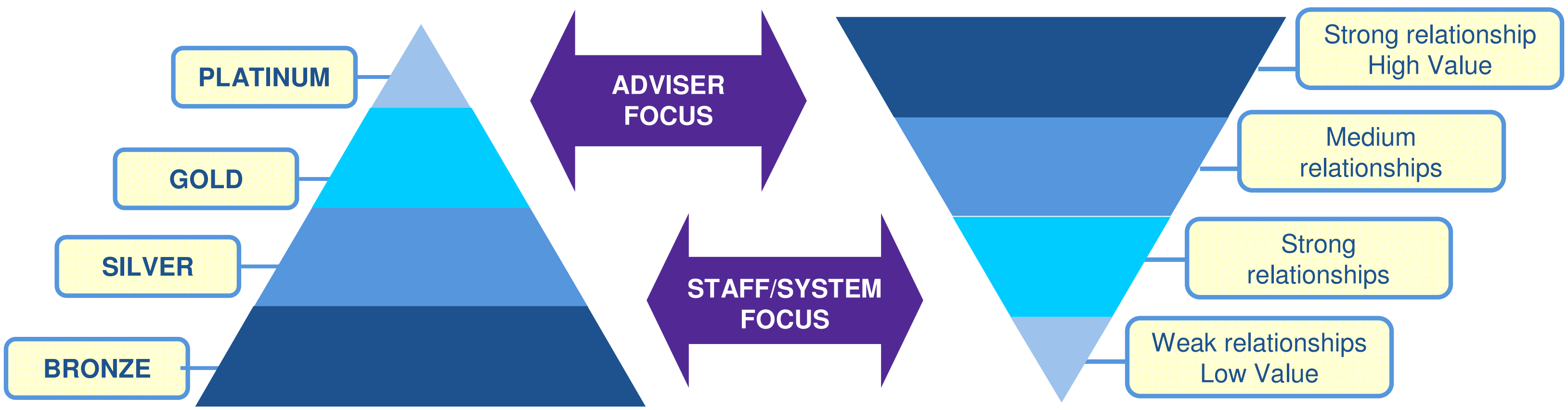
Determine the value and needs of each client and grouping the client base into definable segments

SERVICE OFFER

Determine how each segment can & will be serviced ongoing. Aligned to our CVP

PRICING

Consider cost of service relevant to the value of clients and the value of the service in the marketplace.



CLIENT VALUE & NEEDS **SERVICE OFFER**

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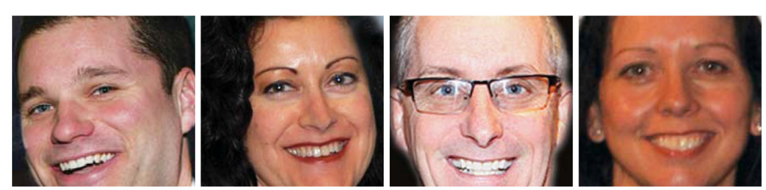

SEGMENTATION

ACTUAL CLIENT SEGMENTS

SEGMENT	NO. OF CLIENTS	% OF CLIENTS	TOTAL SEGMENT REVENUE	AVE. REVENUE / CLIENT	% OF TOTAL REVENUE
PLATINUM (top 5%)	48	6%	$472,800	$9,850	48%
GOLD (next 15%)	128	16%	$223,360	$1,745	23%
SILVER (next 30%)	232	29%	$148,016	$638	15%
BRONZE (remaining 50%)	392	49%	$134,019	$341	14%
total	**800**	**100%**	**$976,195**	**$1,220**	**100%**

FACTORS AFFECTING PRICE

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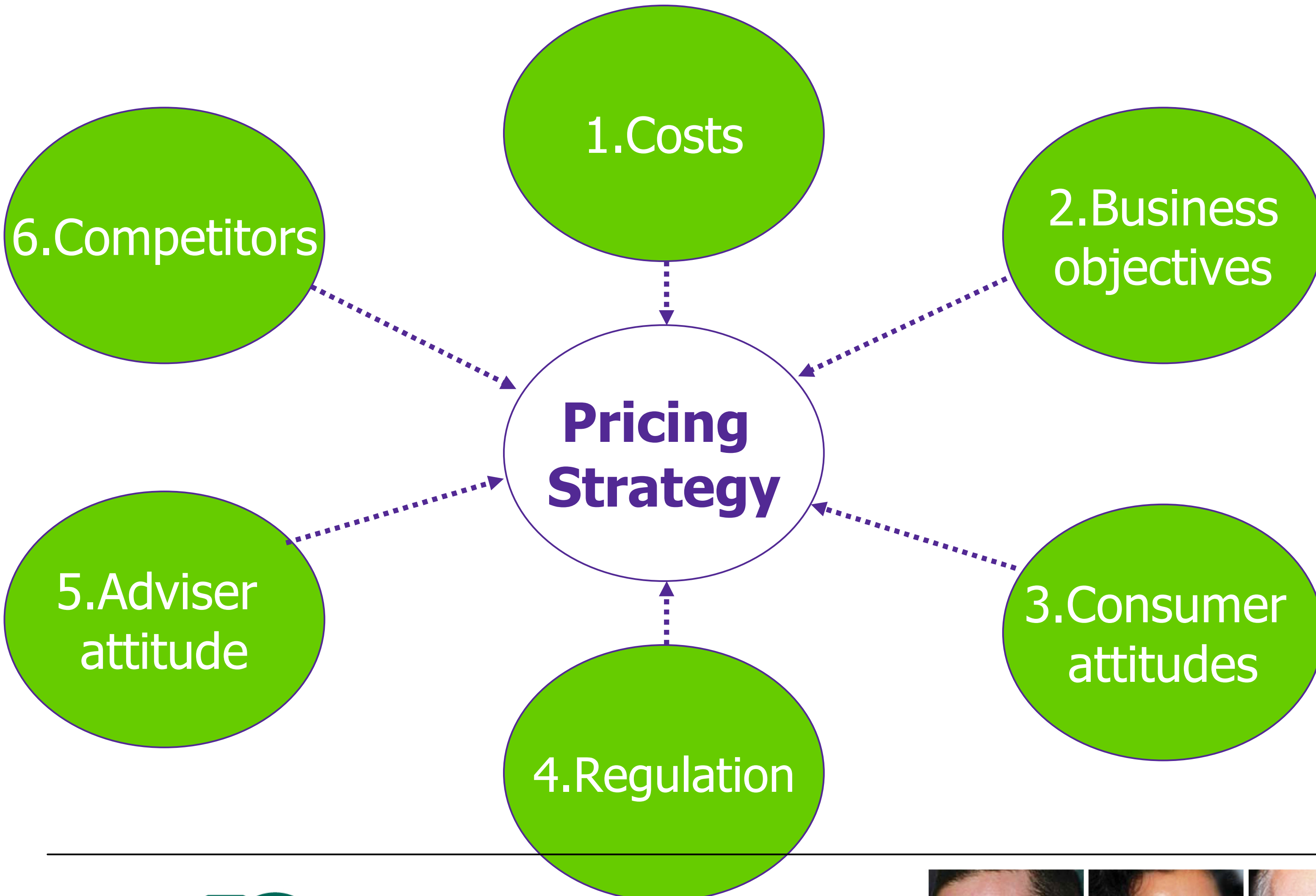

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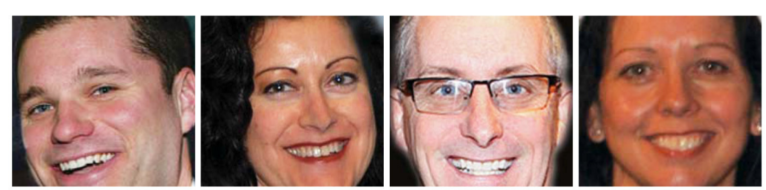

PRICING PROCESS

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Price = Time Allocation + Overheads + Desired Profit

STEP 1
Decide Service Packages & Components

STEP 2
Allocate Time

STEP 3
Allocate On-costs

STEP 4
Add Profit Margin

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1. Service Package - Components

Currerent components for Service: Retainer	
Component	**Freq**
Core Component (3)	
Advice Queries (Phone)	1.00
Annual Planning	1.00
Non-Advice Queries	1.00
Variable Component (2)	
Client function	1.00
Phone Call	1.00
Client Specific Component (1)	
Compulsory Product update letter	1.00

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2. Time Allocation

Retainer	Freq	Manager (Min)	Adviser (Min)	Para Planner (Min)	Owner Adviser (Min)	Marketing Assistant (Min)	Support (Min)	Labour Cost $	Direct Cost $	Total Cost $
Core Component										
Advice Queries (Phone)	1.00	0	30	30	0	15	0	63.90	2.00	65.90
Annual Planning	1.00	6	90	90	0	0	45	187.48	5.00	192.48
Non-Advice Queries	1.00	0	15	15	0	0	30	41.17	2.00	43.17
Variable Component										
Client function	1.00	5	5	0	0	0	5	10.89	50.00	60.89
Phone Call	1.00	0	9	0	0	0	0	8.68	5.00	13.68
Client Specific Component										
Compulsory Product update letter	1.00	0	0	0	0	0	0	0.00	1.50	1.50
Total Role Times (Hours)		0.18	2.48	2.25	0.00	0.25	1.33			
Total Cost Per Role ($)		8.93	143.53	111.33	0.00	10.22	38.11	312.12	65.50	377.62
									Oncosts	155.47
									Total Service Cost	560.75
# of Clients	456								Total Cost of Service to Practice ($)	255,702.00

4.Profit Margin

#	Service	Direct Costs	Oncosts	Client Headcount	Total ServiceCost	Retail Price Incl. Markup	ICE
Calculated Service Pricing							
1	Private Wealth	2,882	1,187	28	4,097	7,448	45% ==> 45 %
2	Platinum	1,189	489	28	1,706	2,843	40% ==> 40 %
3	Risk Services	50	21	28	99	132	25% ==> 25 %
4	Retainer	378	155	28	561	863	35% ==> 35 %
5	Classic	116	48	28	192	256	25% ==> 25 %
6	Corporate Super	1,899	782	28	2,708	3,869	30% ==> 30 %
							Update Service ICE %
Practice Totals: 2060 Clients							
1	Private Wealth	141,229	58,148	1,356	200,732	364,968	45%
2	Platinum	129,581	53,352	3,015	185,949	309,915	40%
3	Risk Services	49,646	20,441	27,305	97,392	129,856	25%
4	Retainer	172,195	70,897	12,615	255,707	393,396	35%
5	Classic	52,403	21,576	12,449	86,427	115,236	25%
6	Corporate Super	17,090	7,036	249	24,376	34,822	30%
Totals		**562,144**	**231,451**	**56,989**	**850,583**	**1,348,193**	

		FUM Required ($)	Monthly Risk Premium required ($)
Service	Retail Price (including markup) ($)	Ongoing %	Ongoing %
		0.6 %	10.0 %
Private Wealth	7,448	1,241,387	6,207
Platinum	2,843	473,875	2,369
Risk Services	132	21,927	110
Retainer	863	143,785	719
Classic	256	42,680	213
Corporate Super	3,869	644,855	3,224

Service	Retail Price (including markup) ($)	Equivalent % age ongoing fee
Private Wealth	7,448	0.74%
Platinum	2,843	0.28%
Risk Services	132	0.01%
Retainer	863	0.09%
Classic	256	0.03%
Corporate Super	3,869	0.39%

Client FUM: $ 1000000 Calculate

TRANSITION TAKES TIME

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XYZ Financial Partners

EXISTING Client Base

- Analyse Base □
- Systems & Procedures □
- Segmentation □
- Service Offer □
- Service Cost □
- Pricing Structure □

GOLD & SILVER CLIENTS

BRONZE & D CLIENTS

FUTURE Client Base

- Specific Target Market □
- Systems & Procedures □
- Selective Service Offer □
- Ability to say NO □
- Focus = Client ✓
- Relationships □
- Focus = Profitability □

GOLD & SILVER CLIENTS

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THE CHALLENGE …..

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- **BE SAVVY:** understand the market
- **BE RELEVANT:** align to the future needs of clients
- **BE FOCUSED:** develop the right offer for the right clients
- **BE EFFICIENT:** have the infrastructure to support
- **BE CAPABLE:** have the right team to deliver the results

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THANK YOU

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