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Strategy & Marketing Consultants

Nothing to Lose

Pricing for the Next Generation of Wealth Management Clients

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Executive Summary

The average age of a wealth management client has crept up steadily over the years, and now stands at around 64. Logic dictates that the average client age cannot continue to go up indefinitely.

Most firms would like to have younger clients, and expect Generation X and Y to constitute a larger portion of their leads in the immediate future.

However, the assets-based approach to fees has boxed the industry into a corner, as minimum asset requirements increase and younger clients are excluded from consideration as a result.

The standard wealth management offering – tried and tested in the familiar high net worth segment – does not work for non-standard clients. Wealth managers who want to attract the clients of the future today need to fundamentally re-think, re-build and re-price their wealth proposition. But how is it to be done? Happily, there are many examples of existing wealth managers who have taken a leap into this unknown territory. In this report, we explore how they have approached the problem of how to attract, serve and retain non-standard clients while – crucially – not going out of business.

The Offering

The offering should be built around the target client. Therefore, wealth managers must decide, amongst the huge mass of underserved clients, **what niche** they want to target. Dentists? Teachers? Government employees? Each group has different needs, abilities and willingness to pay.

Once you have a clear target niche, it is then possible to build out niche-specific **content**. A certain amount of content can be re-used from the standard wealth management offering. Some of this standard content will need to be re-worded to be better communicated, and some of the content may well be missing (e.g. student loan advice).

It is likely that there will be some variation even within a target niche with respect to needs. The less homogeneous the niche, the greater the need for a differentiated **structure**, be it Linear, Modular, or in some cases, a la Carte. If the proposition reflects the structure of the market, this makes the next step – pricing – much easier.

The Price

The first topic to be addressed is the price metric – i.e. how the **price is charged**.

If the client has a small amount of assets to manage, then an asset-based pricing metric such as AuM% does not make sense. One can try to broaden out the definition to encompass **other assets** a client may own, or institute lower minimums for smaller clients. But for clients with no assets and / or high levels of debt, there are better options.

For instance, if a client has a high income, a **% of income** metric may be a better basis for calculation. Either way, the client's ability to pay must meet a certain threshold in order to cover the cost of services delivered in a given package – meaning that it is wise to know in dollars what a service would cost – even if one does not offer a fee-for-service model.

The key to determining minimum or fixed fee levels is identifying the appropriate drivers: these can be based on **complexity**, **advisor access** or extent of **implementation support**. In other words, a combination of client needs and preferences will determine how much effort is required, and hence, what an advisor needs to charge to maintain an acceptable profit margin.

The Communication

Wealth management is in general a poorly understood service to begin with. There is danger that unfamiliar fee metrics and innovative offering structures will confuse clients even more.

Another way of viewing this is as an opportunity. The standard all-in, percentage-of-assets approach to wealth management is simple. But this simplicity belies the complexity of the offering underneath, and so has the potential to confuse.

Through offering options to a client, we can more easily **clarify** what we do ("Do you want this or this.").The first step is bringing the options to the front and center of our communications.

The second step is how to help clients decide between the options. This relies on a **coherence** of how we describe the options, whether through text or visuals.

The third step is key – how we link the fees we charge (often substantial) to the value delivered in each corresponding option. If we do not succeed in this job of **calibration**, clients may default to the lower cost option, which may not be in their best interests.

Finally, given the increasing importance of online referrals, we need to **confirm** prospects instantaneously, by making it obvious and frictionless to submit their details and move forward on our website. This requires careful design – but not a lot of expense, if the thinking is done correctly.

Most firms agree we need to attract non-standard clients, and the firms in this report show that it is possible. The next move is for the incumbent giants – banks, wirehouses, broker dealers and robo-providers – who have nothing to lose by bringing these models to scale.

The XY market is untapped, unserved and wide open. What do we have to lose?

Introduction

An intern at a wealth management firm was tasked with creating a financial model to predict the future revenues of the company. In the list of key inputs underpinning the projection, the intern duly noted, "Clients are assumed to become one year older on an annual basis."[1]

The intern had identified wealth management's most fundamental problem: we need new clients to replace old ones. So far, the strategy has been to wait for the moment when an individual approaches retirement or acquires sufficient assets to meet a pre-determined minimum, whereupon he or she officially becomes a prospect for wealth management services.

Will this continue to be a reliable strategy?

Early signs have not been encouraging. The proportion of assets belonging to Generations X and Y invested with financial advisors has inched up very slowly over the past five years, from 9% to 11%[2]. This is not a large percentage, nor a fast moving one.

Meanwhile, conversations at funerals – a symbolic moment when wealth is handed over, and advisory relationships are renewed – have not been going well for most wealth managers. An InvestmentNews study from 2015 estimated that 66% of heirs fire their parent's financial advisor.

What is the reason for the struggle to recruit XY clients?

Wealth managers have failed to effectively communicate the value of premium wealth management to Gen X and Gen Y clients. This problem has been exacerbated by the emergence of low-cost competition that seems to offer similar services. In this respect, the words 'fiduciary' and 'fee-only' have been assigned an unreasonably high burden. As many low-cost providers increasingly lay claim to the same terminology, it may be that these terms possess somewhat less of the differentiating power they once had[3].

Additionally, since the terms 'fiduciary' and 'fee-only' are essentially statements about what an advisor is *not*, it's possible that they may be counter-productive.

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[1] Anecdote taken from *The New Profession* by Bob Veres.
[2] PriceMetrix "The State of Retail Wealth Management 2013-2017"
[3] It is also possible that the power of these terms, at least from the average client's perspective, has been exaggerated. In a survey of 1,000 US prospects, who were asked to describe the value of a financial planner in their own words, the expressions 'fiduciary' and 'fee-only' appeared precisely zero times.

This is comparable to adding, 'No criminal record' under your Match.com profile. Definitely a good thing, but at the same time, unsettling somehow.

We at Simon-Kucher & Partners argue that the current fee model is the primary reason why the wealth management industry has had limited success adding younger clients to its client base[4].

As we have discussed elsewhere[5], the percentage of Assets under Management (AuM%) pricing model has many drawbacks. In particular, a one-price approach is limited in its ability to reflect the nuanced contours of the modern, expanded wealth management proposition. Which, as every student of holistic wealth management knows, has gone beyond investment management into the management of a client's entire life and goals.

Which brings this preamble to the point: the unidimensional AuM% fee model makes it very hard to serve Generations X and Y, because these clients typically have little in the way of AuM. If they do possess assets, these are often illiquid and offset by considerable debt.

Doubtless, some institutions view themselves to be in the AuM-gathering business, rather than wealth management. Such firms might not even see the point of pursuing clients with little or no investible assets, even if such clients were willing to purchase services from them[6]. If investment management is the main service, then a client with a small amount of investible assets is clearly better off with an automated solution that has a low minimum.

There are, however, contingents of truly holistic wealth managers who see these "asset-poor" clients as the future of their business. The challenge they encounter is how to serve them profitably.

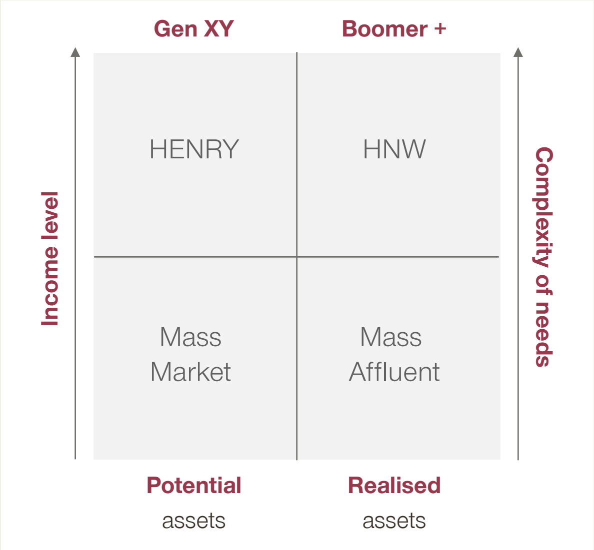
The approach of taking younger clients on at a loss and banking on the imminent passing of a near relative, is a highly unsatisfactory revenue strategy[7]. Many institutions, most notably banks, have developed low-cost robo-advisory like solutions to serve the needs of clients who fail to qualify for full wealth management or brokerage services[8].

---

[4] Full disclosure: Simon-Kucher & Partners derives the majority of revenues from solving pricing problems.
[5] Basically all of our white papers so far, and probably in the future as well, *passim*.
[6] This assumes that such services are available in the first place. For firms who face the added challenge of being unable to *deliver* more than investment management, this is a further hindrance to targeting clients without asset to manage.
[7] Although it does have the makings of a niche-appeal detective novel.
[8] Again, this could be because they do not conceive of 'wealth management' but 'AuM management' as the service they are providing.

It’s possible that clients with minimal complexity and a long time horizon can be adequately served by a software-generated plan[9], a basket of ETFs and an 800 number. But even assuming that this is in fact a viable model for the mass market, it still leaves under-served those clients with higher complexity (and often higher incomes), who are still some years away from retirement, and hence asset-deprived.

This is the celebrated HENRY (High Earning Not Rich Yet) client[10]. The lack of a viable proposition for such clients should be a cause of some concern to large institutions who hope to retain them, and one day welcome them into the ranks of their High-Net Worth clientele.



Source: Simon-Kucher & Partners

Figure 1

So what can be done?

There are two fundamental reasons to be optimistic about the large, lucrative and untapped client base in the top left-hand corner of the chart.

1. **They need financial advice** – HENRYs and Gen Xers have complex financial lives (although their asset management needs may not be complex).
2. **The ability to pay exists** – these are still wealthy clients, but their wealth is in the form of income rather than liquid assets.

[9] ...or questionnaire masquerading as a plan.
[10] Michael Kitces comments, “The very label of HENRY – “High Earner, Not Rich ‘YET’” emphasizes the traditional view that there are only 3 types of clients: 1) AuM 2) Not AuM yet 3) Not AuM (ever). [It] literally doesn’t contemplate a non-AuM client.”

If the right proposition and pricing were in place, and if these were communicated properly, the HENRY market could be a significant new vein of business for wealth managers, and a pipeline of future leads for the standard HNW proposition.

Increasingly, wealth managers are recognizing that traditional pricing models are encumbering their ability to better serve emerging segments like the HENRYs. However, most are at a loss as to how to solve it.

Perhaps, the group that has been most active and successful in tackling this issue is the XY Planning Network (XYPN). Founded by Michael Kitces and Alan Moore in 2014, XYPN provides its members (fee-only financial advisors) with technology, compliance, marketing and practice management services.

Chief among the achievements of XYPN are two milestone innovations in wealth management pricing.

First, until recently it was not easy to charge clients for wealth management using non-standard fee metrics. To address this problem, Kitces and Moore come up with AdvicePay, a payment-processing technology for financial advisors in 2016. With AdvicePay, XY-focused advisors have the operational infrastructure to process subscription fees or one-time payments for their services, and accept credit cards.

Secondly, an advisor who is charging non-AuM fees for investment management needs to have a platform that charges on a similar basis (otherwise, as client assets grow, the advisors platform fees increase faster than the fees the client is paying). XYPN charges the advisors on its platform a fixed monthly fee[11], to allow for this charging structure.

Despite being a relatively young network, XYPN's membership ranks have swelled to 750 advisor firms. As Kitces observes, this is on par with a top-30 independent broker-dealers in terms of overall size.

This report does not pretend to be a comprehensive overview of the XYPN movement. It is based on a study of a random subset of its members, and examines their approach to crafting a value proposition for their respective segments. We take a close look at how they charge for their services, and how they communicate what they do.

[11] https://www.xyplanningnetwork.com/advisor/pricing/

In so doing, we aim to summarize the most current solutions to a long-term existential problem faced by premium wealth managers in North America and around the world.

Who is this report for?

Michael Kitces once remarked with characteristic down-to-earth realism that should the XYPN network achieve its ambitious near-term goal of serving 300,000 clients, it will collectively serve a whopping 0.2% of the addressable market.

It is important to note here that XYPN is essentially a coalition of solo advisors and micro-practitioners, motivated in large part by a zealous desire to bring financial advice to the next generation. If the ideas being tried and tested by this group are to truly make an impact, they must be adopted by the incumbent giants: banks, wirehouses, brokerage firms and insurance companies.

While we hope this report will be of interest to any advisory firm with an eye on the future, those who stand to gain most by reading it are the very firms who stand to lose most by ignoring it altogether.

For these large institutions, searching for inspiration in the outlands of the micro-advisory firm may seem counter-intuitive. However, it is worth remembering that a move from the old pricing model to the new is nothing short of a revolution. In his iconoclastic work *AntiFragile*[12], Nassim Taleb emphasizes that much scientific innovation has emerged not from formal research institutions, but from "stochastic tinkering" on the sidelines by enthusiasts motivated by dogged curiosity.

In the book, he cites a surprising number of advances attributed to English country rectors during the industrial revolution. Reverend Bayes is an example that should be familiar to anyone who has been forced to learn his formula, but others include the inventor of the power loom (Rev. Edmund Cartwright), the inventor of the submarine (Rev. Georg Garrett), the inventor of modern archaeology (Rev. William Greenwell), and many more.

Wealth management is a profession that needs innovation – now, more than ever. In the opinion of the authors of this report, it is a privilege to behold this quiet revolution unfolding in real time.

[12] Nassim Nicholas Taleb, Antifragile: Things that Gain from Disorder, Random House Publishing Group (2012)

1 Overview of the XY Model

XY wealth management offerings are transparent from a content and pricing perspective, and as a result, also allow clients to customize what they receive

	ASSET MANAGEMENT	FINANCIAL PLANNING	CHECK-INS	AD-HOC SUPPORT	LIMITED ENGAGEMENT
COMMON FEE TYPE	AUM % FEE	UP-FRONT $ FEE	PERIODIC $ FEE	HOURLY $ FEE	PROJECT-BASED FEE
MEDIAN FEE RANGE	~ 50-100 bps	~ $1,000-$3,000	~ $150-$500 per month	~ $250 per hour	~ $750-$4,000

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The emerging XY proposition & pricing model is not the result of a centralized planning committee or self-styled innovation lab populated by motor-mouthed MBAs. Instead it has developed organically from the efforts of many individual innovating firms and firm owners, testing out new ideas in the real world with actual clients.

Our hope in this study is to shed light on what this new model is and how it works. In preparation for it, we examined a representative sample of 100 planning firms who identify with the XYPN values[13].

The most identifiable aspect of the XY model is probably the use of the 'subscription' fee[14]. However, not all XY models make use of subscription fees, and many leverage a number of other pricing metrics.

Below, we've compiled three definitive traits associated with the emerging approach to XY wealth management.

1.1 The New Guidelines

Clients can see what they get

The financial advice profession is shrouded in a blizzard of impenetrable acronyms, densely-worded descriptions and lamentably uninspiring jargon such as 'cashflow modeling'[15]. Even the beloved term 'fiduciary' is hardly likely to cause a spike in the adrenaline levels of the average sentient lifeform.

Advisors have – it is fair to say – traded for years on the obscurity of the field in which they operate. This worked best in the age of the trusting, deferential consumer. But that age is fading, and clients today are actively comparing advisors to the competition, starting with the fees they charge. Hence, being crystal clear on value is a must (unless price wars happen to be your thing).
The other major problem faced by the financial advice profession, is that the language used to describe the value proposition of specific advisors is generally couched in terms identical to that of the next (and previous) advisor on the list, even though the actual services delivered may well be materially different.

[13] All such firms can be found on the XYPN website: www.xyplanningnetwork.com.
[14] We will return to the subscription topic in chapter 3, and address the topic again in Appendix B. 'Subscription' is the most consumer friendly term for this fee model, but 'monthly retainer' remains the term used by industry insiders. Since regulators dislike the term 'retainer', we've used 'subscription' throughout this report.
[15] An expression apparently designed to be comprehensible to virtually no one.

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The herding instinct leads us to imitate others and seek safety in conformity. It still works pretty well if you're a zebra[16]. But in today's wealth management landscape, the way to avoid getting eaten is to go against thousands of years of evolution and break *away* from the pack.

A characteristic of the emerging XYPN advisor, therefore, is a tendency to describe in well thought-out detail what a client who retains the firm's services can expect to get for their fees. Here is an example, taken from the website of **Townsend Financial**.

Comprehensive

Think of this as a financial re-org. I will take a look at your whole financial picture, get you organized, make a plan and implement it. It'll help you determine what you want your money to do for you, and set you on the path to achieving your goals. This includes:

- 30 Minute Assessment Call
- 90 Minute Discovery Call to discuss what money is needed and wanted for, and if you have any pressing concerns
- Data Gathering & Analysis
- Your very own Financial Dashboard
- A full Financial Plan, documented and actionable
- 90 minute call to review the plan and strategy
- Quarterly Meetings to check on progress and make any changes necessary
- A CFP® professional you can reach out to via email at any time if your situation changes or you have questions

$1,500 - $2,500 flat fee +$149 -$175 monthly subscription

Source: https://townsend-financial.com/pricing-%26-services Figure 2

While not flashy in presentation, the message is plainly worded and almost impossible to misunderstand.

Looking at the bullet points under the initial description, we see the components of the proposition set out in precise, concrete terms. The value of the options has an almost tangible feeling, compared to the standard, abstruse murmurings about holistic value propositions. And this is important, because the human brain is built in such a way that tangibility and behaviorability are correlated[17].

[16] Research has uncovered that zebra stripes serve as protection not because they act as camouflage, but because they make it harder for a predator to distinguish individual zebras from one another, and thus harder to target as a specific object of prey. Zebras with distinguishing features are almost guaranteed to be singled-out by the predator. It is likely that this evolutionary instinct is hard-wired somewhere in the human brain – including the brains of financial advisors.
[17] See Daniel Kahneman's work on "System 1" thinking: Thinking Fast And Slow (Part 1).

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Furthermore, it is now possible to compare the value of this proposition with a cheap online alternative (where 90 minute discovery calls are unlikely to be on the menu), and determine that the former exceeds the latter by some margin.

Clients can choose what they get

Choice is generally a good thing.

Having a series of options is an effective way to address a market that consists of clients with broadly similar needs that differ in certain key regards, such as amount of desired face-time with an advisor. As we said in *Pricing for Growth in Wealth Management*[18], the absence of choice in wealth management is a glaring omission in an age of consumer empowerment and the Internet. It is also an unforgivable one if we consider that some clients may have never known anything else.

The all-in AuM% fee model puts advisors in a bind when it comes to offering choice. Since all services are – in theory – included, the only aspect of the offer that can be altered is the fee itself, and the only direction it can be altered in is down.

If effort is circumscribed by different packages or service levels, with corresponding price points to reflect the difference in effort and value, less demanding clients can self-identify, and so free up time for higher paying clients.

There are many other benefits to choice of course, not least of which is the ability to better communicate what it is we actually do! The Brazilian wealth manager André Novaes put it beautifully when he said, “the key to clarity is contrast”. Offering choice naturally allows clients to see better what they are receiving, through the addition of a reference point.

[18] Matthew Jackson and Wei Ke, Pricing for Growth in Wealth Management, Simon-Kucher & Partners, 2017

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Here is an example of a choice-based proposition, from **Spillane Financial Planning**.

Investment Packages
That help you succeed

Investment Consulting *You have a 'do it yourself' approach*	Investment Management *We can do the work for you*
• Client manages their own investment accounts • Customized asset allocation plan • Personal risk profile analysis • Specific Investment Recommendations • Ongoing guidance and meetings at client's discretion	• Professional management of your investment portfolio • Investment held at independent custodian (Scottrade) • Customized asset allocation plan • Personal risk profile analysis • Investment Policy Statement (IPS) • Performance Reports
$150 per hour on fixed quarterly fee	**0.50%-0.85% annual fee based on AUM**

Planning Packages
That fit your need

Strategy Session	Hourly Consulting	Comprehensive Planning
• Get answers to important questions • 90 minute meeting (virtual or in-person) • 30 minute telephone follow-up • One-time engagement	• Targeted financial planning analysis • Meetings as needed (virtual or in-person) • Written action plan with recommendations • Short-term engagement	• Comprehensive review & analysis of your overall situation • 4 meetings per year (virtual or in-person) • On-going guidance and support • Secure portal access to your plan and other online tools
$400 one-time charge	**$150 per hour (four hour minimum)**	**$1,250 up-front fee plus $150-$300 per month**

Source: https://spillaneplanning.com/our-services/financial-planning

Figure 3

Even if the detail cannot be processed immediately, the user receives the instantaneous impression that he / she is in control of what is delivered, and that these options are built around client preferences and personality type, rather than advisor-centric parameters that have no meaning to the client.

In Figure 4 we share a more radical example from **Modern Money Advisor**. The planner has in this case productized advice into a number of packages that represent limited-term, project-style planning engagements. The client sees that the advisor understands not all clients are the same, and that the right option exists amid the various choices available.

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Source: https://www.modernmoneyadvisor.com/modern-money-financial-planning/

Figure 4

Clients can see what they pay

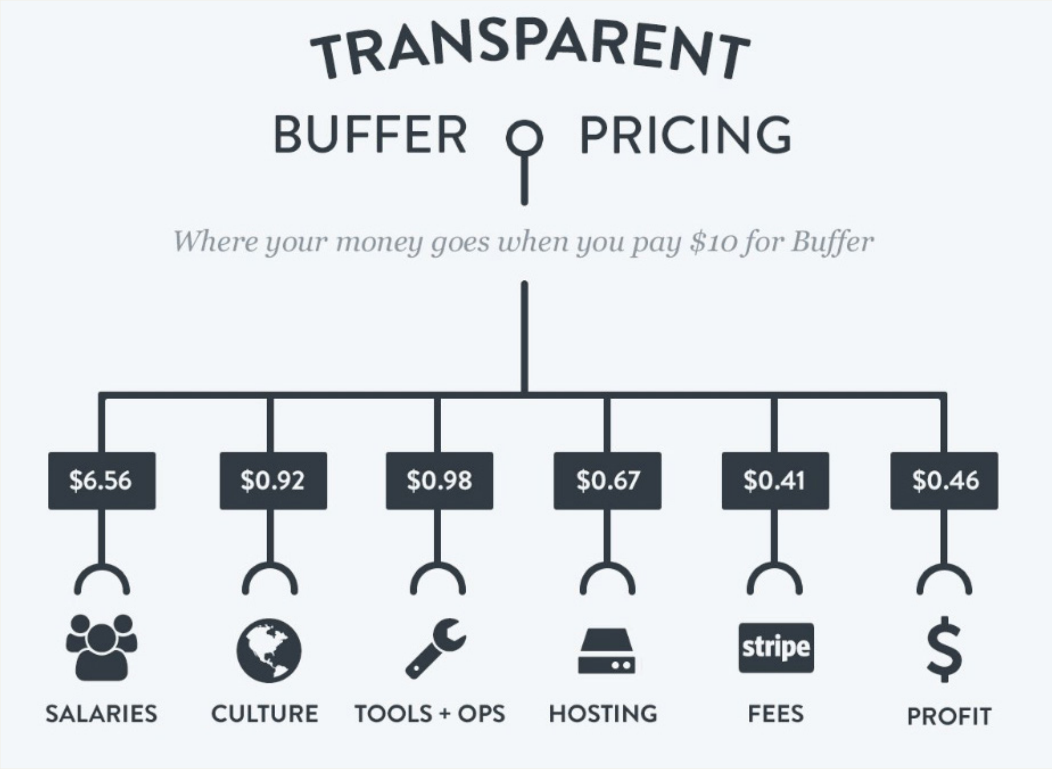
Wealth managers are typically reticent about fees in public-facing material, especially on company websites. "It has to be a face-to-face conversation" is the time-honored rule.

It's understandable how this rule came about. Clients need to understand the value of a given firm before judging whether fees are too expensive. The baffling, generic style of communication that wealth managers seem to universally employ on their websites also leaves the client in no position to discern the firm's unique value proposition without a meeting.

However, the *face-to-face* rule is an increasingly endangered one, given that pricing practices for a given advisory firm can be accessed in about three clicks via the publicly available ADV form.

A planner recently shared with us the tale of a (highly-educated, business-owning) client who made the mistake of *adding up* the basis point fees in a tiered pricing schedule, rather than calculating the blended rate, and almost withdrew from the onboarding process upon concluding that he would be charged 260 bps (140 + 120).

Technology that can instantly scan and compile these fees on behalf of clients is not far away. A future-ready approach would therefore be one that embraces fee transparency. If clients are going to be eyeballing your schedule, it might as well be on your terms.



Source: https://open.buffer.com/transparent-pricing-buffer/

Figure 5

Take this bold example by the social media engagement platform Buffer, which goes the whole nine yards and reveals its cost structure to boot.

Members of the XYPN are more likely than most to embrace price transparency. We found 61% of the websites from advisors on the network contained direct pricing information, and in many cases prices were displayed prominently, one might even say flagrantly.

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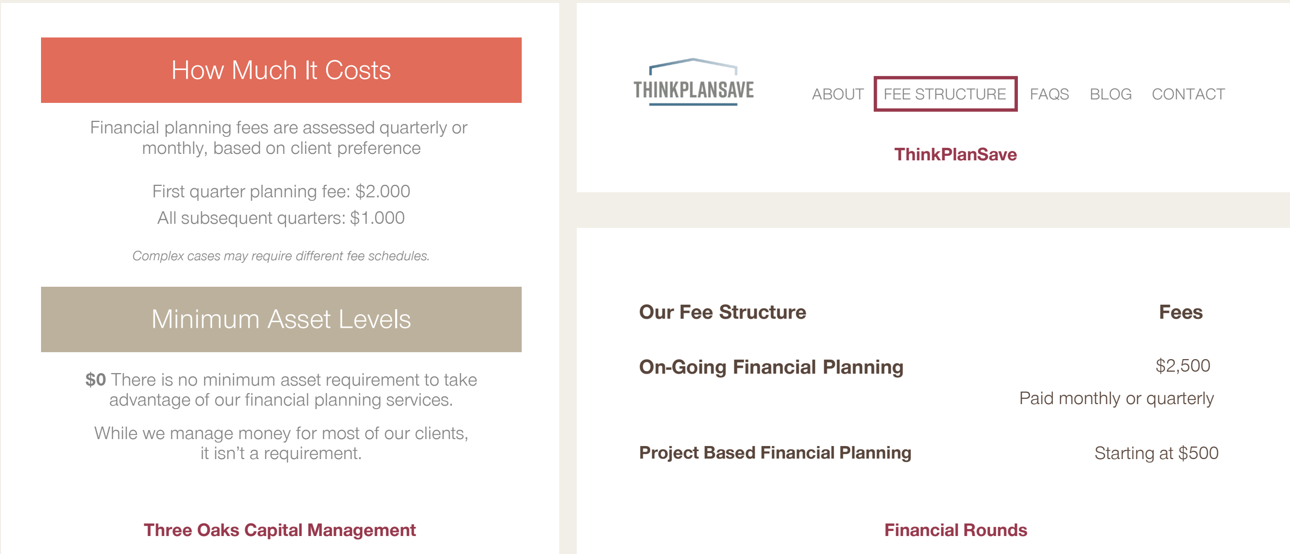

Source: https://www.3oakscapital.com/financial-planning/
https://thinkplansave.com/
https://www.financialrounds.com/

Figure 6

Take a look at these examples above.

In contrast to the early robo-advisor propositions, these financial planners are not emphasizing how much *cheaper* they are than the competition. Presented in hard dollars and not in the form of basis points, the fees are both sizeable and salient.

Fee transparency has two benefits, *especially* if we are not offering the cheapest option. It communicates that the firm has nothing to hide, which is a powerful message in a profession blighted by scandals, and still reeling from the financial crisis of over a decade ago.

Furthermore, it acts as a screener, selecting for clients who are truly serious about solving their financial issues. This is a time-saver for the advisor.

While price level comparisons with competitors are generally not used, price *model* comparison can be used aggressively, as in the below example from **Clark Asset Management**.

1

Source: https://bradleyclark.com/

Figure 7

One could argue that this goes a little far. One could also argue that this provides a much-needed stimulus for the typical fee-only advisor to go beyond intoning 'fee-only' as a solve-all marketing term, and instead make the effort to more precisely define the value a client receives for a 1% fee[19].

1.2 The New Building Blocks

It is difficult to make cast-iron statements about what the "new-world" model looks like. Even in the limited sample we studied, there were many variations.

In lieu of a definitive answer, below is an impressionistic diagram that gives a sense of the basic archetype, followed by some statistics from the sample studied[20].

[19] A popular financial advisor joke: "Why did the bank robber only steal 1% of the bank's money? Answer: He was a financial advisor."

[20] For a definitive statistical overview, download the latest XYPN Benchmarking Study, available from the XYPN website at http://info.xyplanningnetwork.com/2018-benchmarking-study

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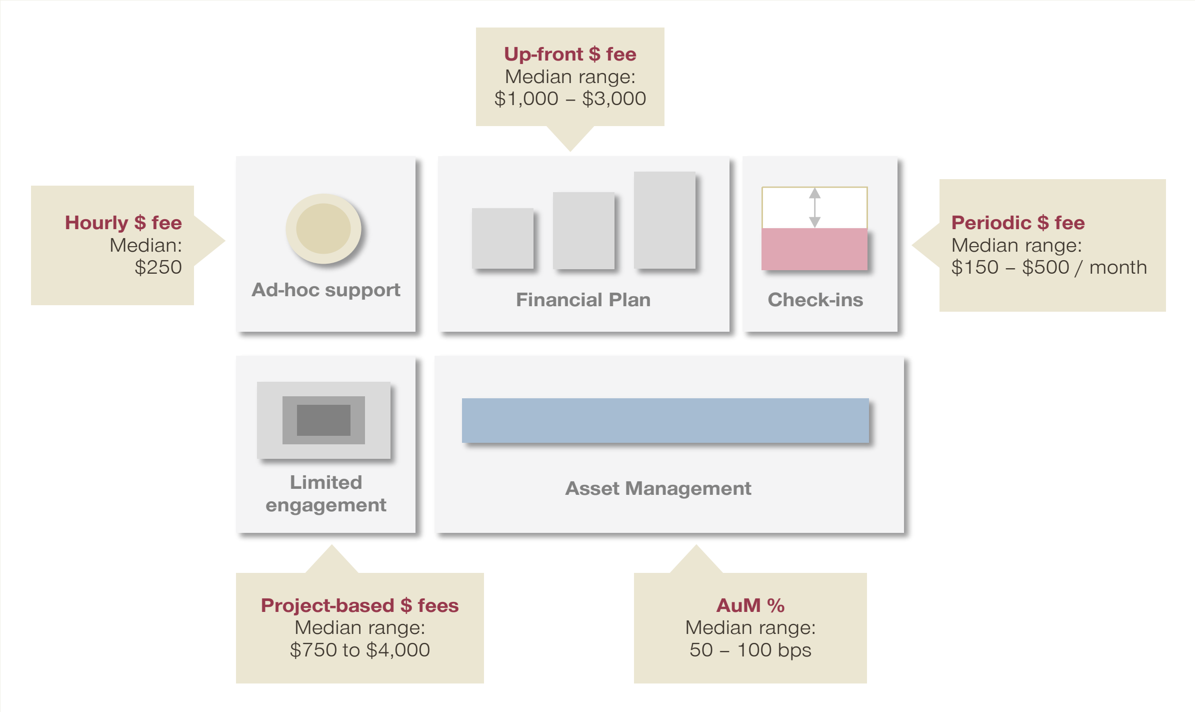

Source: Simon-Kucher & Partners

Figure 8

As you can see, there are various price metrics at play. Not all propositions in the sample make use of all price metrics – but very few make use of only one. The most typical approach is a combination of three: AuM% + Up-front $ + Periodic $ fee (monthly).

i) Periodic $ fees:

These are generally **monthly subscription** fees, but these can also be stated on a **quarterly** or **yearly** basis.

These fees are often stated in ranges, or have explicit levels linked to different packages and/or client complexity. The periodic fee can be notionally linked to the periodic interactions that are part of the ongoing, underlying service.

Stated in monthly terms[21], the **median** range is **$150 – $500** per month. The **lowest** monthly fee to appear in the sample was **$9** per month and the **highest $3,600**.

[21] Quarterly and yearly fees have been re-stated in monthly terms for the purposes of calculating these figures.

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ii) Up-front $ fee:

The up-front fee is typically paired with the periodic fee[22].

It covers the spike of planning activity at the beginning of the advisory relationship. It also serves as an investment by the client in the relationship, and helps to build commitment mentally.

As with the periodic fee, there are often different levels, usually based on the complexity of the client.

The **median** range is **$1,000 - $3,000** per month. The **lowest** fee in the sample was **$99** and the **highest $50,000**[23].

iii) Hourly $ fee:

The hourly fee is sometimes quoted in client-facing materials as part of the main proposition, and as an explicit alternative to the other formal options for engagement, for those who desire ad-hoc advice.

The hourly rate is generally fixed, but is occasionally also given as a range. The logic for a higher hourly rate is seldom stated, but it presumably varies to reflect the underlying cost of the resource, with more senior resources commanding a higher hourly fee.

The **median** hourly fee is **$250** per hour. The **lowest** fee in the sample was **$100** per hour and the **highest $1,000** per hour[24].

iv) AuM %:

The AuM-based fee is the least remarkable part of the fee toolkit.

For all the innovation on fee metrics and structures, however, it is important to note that the AuM fee is present in **more than two thirds** of the models surveyed. Reports of its death have been greatly exaggerated[25].

[22] It is thus distinct from the 'project-based' fee (part v) that is normally intended to be standalone.
[23] So-called 'QuickStart' or miniature planning sessions, often based on one-issue or a limited range, are excluded from the statistics above. These engagements had a median fee of $500, with a low of $300 and a high of $2,400.
[24] Kudos.
[25] The recent XYPN benchmarking study (see appendix for details) shows that firms who initially do not include the AuM% fee tend to add it after a few years of being in business.

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The **median range** for AuM fees[26] is comparatively low by industry standards, at **50 – 100** bps. The lowest fee in the sample was **10** bps and the highest **150** bps.

v) Project-based fee:

Project-based fees are intended to pay for standalone engagements, wherein ongoing commitment is either not required or not expected.

These project engagements are often built around the creation of a financial plan, but there is an increasing trend towards **education** replacing planning as the project-based option, reflecting the fact that in the XY segment the current financial complexity may be low (and the need for a complex financial plan), whereas the need for education (i.e. elucidating the complexity of future options) is high.

This fee was the most variable of all the metrics, with a median range of **$750** to **$4,000** per engagement. The lowest fee in the sample was **$250** and the highest **$15,000**.

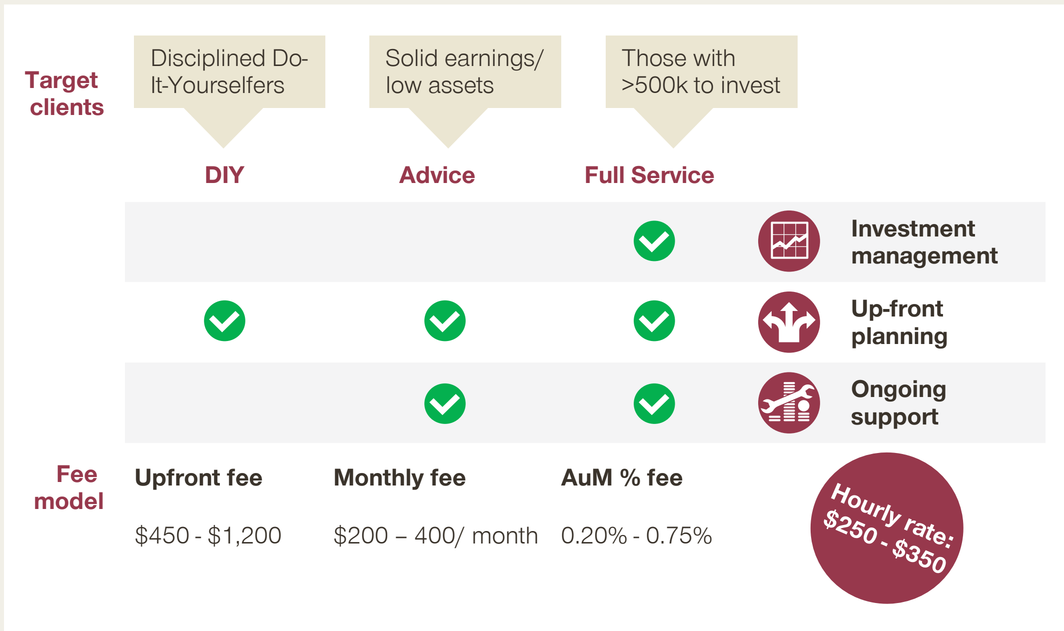
1.3 The Finished Product

While these fee components were seldom to be found all together in the same model, the above overview should give a sense of the new abundance of options that XYPN advisors have at their disposal.

Mile Wealth provides an example of a model that takes full advantage of this optionality (Figure 9). These offerings are built around the behavior and preferences of his target clients, and the alternative pricing metrics and models are utilized intelligently to match the offerings. He explains the reasoning on his website:

Project-based Fee: "I enjoy working with disciplined, do-it-yourselfers, who want someone to look over their finances. I offer a two-hour Financial Review that involves initial data gathering, an in-person discussion (live/phone/virtual), and an 'accountability checkup.'"

[26] Since asset-based tiers vary from advisor to advisor, the fee levels are only partially informative. It is clear that fees are considerably lower than industry standards, if we consider that the typical size of client served is lower in the XY universe. Further, it is important to note that this asset-based fee, while low, is not 'discounted' or 'aggressively low'. It is simply an unbundled version of the fee that is embedded in the standard all-in AuM% fee, which normally pays for everything.



Source: Simon-Kucher & Partners

Figure 9

Periodic (Subscription) Fee: "If you have solid earnings, little/no assets (yet), complex needs, and the desire for proactive wealth management, I offer ongoing planning based on a monthly subscription fee ranging from $200 to $400 per month."

AuM% Fee: "For clients with more than $500,000 to invest, I offer ongoing planning paid as a percentage of assets managed."

Hourly Fee: "I can also work with you on an hourly basis for specific financial projects. (Maybe you are considering a Roth conversion, Social Security drawing strategies, or have questions about pension draws.) Contact me and I will provide a quote for your project."

In the remaining chapters, we'll explore the advantages afforded by the new paradigm. Namely, the ability to offer new services to clients who would otherwise be unprofitable, a goal that still eludes the majority of the planning profession when it comes to Generations X and Y clients.

2
Proposition:
How to design it

Given the diversity of the XY client base in terms of wealth management needs, the content of the offer needs to be re-structured to reflect this diversity

Designed with:

NEW SEGMENTS	NEW CONTENT	NEW STRUCTURES
Life stage	Rewording	Graded offering
Life choice	Refining	Modular offering
Career choice	Reordering	Targeted offering

2

Compared with traditional wealth management business models, the XY model is targeted at a different set of clients, and so caters to a different set of needs. In this chapter, we examine in more detail how the value proposition can be adapted to these needs.

We'll come at this from a high-level at first, examining how advisors are niching and selecting segments of the XY pie to better tailor their services. Next, we'll look at what this means in terms of how they vary their offerings. Finally, we'll look at the impact this has on the structure of the offer itself – bundling, a la carte and so forth.

2.1 New Segments

The XYPN website requires advisors who register to specify their target clients. A quick scan reveals a dizzying range. Far from being the standard 'wealthy retirees with an investible assets of $1m or over', it is uncommon to find two firms with exactly the same target segments.

The most frequent terms are, as one would expect, 'Generation X' and 'Generation Y', but even these terms are in the overall minority.

As a helpful way of bringing order to the otherwise confusing level of diversity, we have organized these target customer segments and niches into roughly three groups:

- **Life Stage:** relating to a certain point of life.
- **Career Choice:** relating to a specific line of work.
- **Life Choice:** relating to a specific life pursuit or belief.

These groupings are not rigid and can overlap.

2

Next generation niches

The selection below gives a sense of each category:

Life stage	Careers - general
Newly Engaged Couples	Business executives
Mid-Career Professionals	Dentists
Grievers	Physicians
Recent Graduates	Attorneys
Newlyweds	Engineers
Parents	Residents
Young Families	IT Professionals
First-Time Parents	HR Professionals
Immigrant Families	Musicians
College - Bound Families	Military
Life choices	**Careers - highly specific**
Motorcycle and RV Owners	US DOJ Employees
Christians	Globally Mobile Professionals
Gamers	Texas Tech University Alumni & Friends
High Intensity Individuals	Professionals earning incomes of $150,000 - $350,000
Minimalists	Family Business Owners
Non-Traditional Life Path	Consumer Packaged Goods and Retail Professionals
Outdoor Enthusiasts	Hispanic Business Owners
Urban/city-dwellers	Integrative Medicine Professionals
World Travelers	Investment Banker & Private Equity Professionals
Those Interested in Second Opinions	Federal Government Employees

2

This diversity of target groups is a product of two factors.

First, the potential market for this new model is truly enormous. Even if one only targets ‘Gamers’, for instance, it would be difficult to scratch the surface of the US population that fits this description[27].

Second, while having a distinct target market is a good idea for any businesses, the sheer breadth of potential clients makes it all the more important to specialize.

Needs differ by niche

A more diverse group of target clients requires a broader range of service offerings and features.

One advisor who focuses on younger prospects remarked on the absurdity of sitting a 21-year old client down and asking him or her, “So, how much income do you think you will need in your first year of retirement?” A tried-and-tested process can win within the domain of 55 year olds, but fail with a clientele that has an entirely different set of challenges.

Alan Moore remarks, “Roughly half of my time as an advisor is spent persuading young people that they shouldn’t buy a house.” Making poor decisions about home ownership is not something that is likely to be top of the list of concerns of older clients. But it is one that has potentially calamitous implications for young couples looking to invest their money wisely.

In the case of younger clients, there is an emerging body of knowledge about how such clients differ in terms of service needs. For example, instead of making a financial plan, it might be more useful for them to have regular touchpoints with their advisors throughout the year, with clear next steps at the end of every interaction as to what needs to be achieved before the next meeting.

Each stage of life presents a different set of financial challenges, which requires a different approach. The team at **Myra Wealth** illustrates this point on their home page, by contrasting these challenges and how they shift from life stage to life stage.

[27] According to Statista, there are approximately 89 million game console users in the United States. So a fairly broad niche.

01. Starting Out

- Balancing a budget
- Managing student debt
- Setting financial goals
- Negotiating a job offer
- Employee benefits selection
- Managing credit scores
- Home / Car purchase decisions
- Setup a will, living will & power of attorney

02. Settling Down

- Merging finances with a loved one
- Purchasing your primary home
- Planning for a newborn
- Planning for education – daycare to college
- Evaluating life insurance options
- Planning & saving for retirement
- Saving for vacations
- Basic investment planning

03. Entering Midlife

- Reevaluating your tax strategies
- Fortify your retirement savings
- Plan for the costs of college
- Looking after your kids
- Taking care of ageing parents
- Purchasing a vacation / investment home
- Preparing for the “What Ifs” in life
- Advanced investment planning

04. Nearing Retirement

- Coordinating retirement income
- Trust & estate planning
- Consider long term care options
- Determining health care needs
- Financially empowering your children
- Planning for early retirement
- Flexing your philanthropic muscle
- Evaluating long term care needs

Source: https://myrawealth.com/

Figure 10

For most of people’s lives, managing income and the source(s) of that income is a bigger concern than managing assets. This means career-related advice is more relevant than estate planning strategies.

2.2 Offering Content

Financial advisors don’t need to completely re-invent the wheel for the next generation of clients. But some re-invention is necessary.

The approach, which we’ll explain in more detail in the next three sections, can be summarized in three steps: **Rewording**, **Refining**, and **Reordering**.

2

Rewording: Making features relevant

A shortcut to making an offering relevant is to take what one already does and to adjust it slightly. Sometimes this adjustment is simply a matter of using more apt terminology.

Let's take a look at a standard list of financial advisory services:

- Investment Management
- Retirement Projections and Planning
- Insurance Analysis and Protection Planning
- Goals Planning and Analysis
- Budgeting and Cash-Flow Analysis
- Estate Planning Coordination
- Tax Strategies

Some of the services (e.g. Estate Planning) one could argue[28] are not relevant to the younger client altogether. Other features are of greater immediate relevance, but conveyed in terms befitting a bygone era when using formal terminology sounded impressive and scientific.

Instead of the cryptic "Budgeting", XYPN advisors say, "Creating and staying within a budget (even on an irregular income)". Instead of saying, "Goals Planning," they use the term, "Identifying and planning for life goals (home, vacation, education)".

In addition to rephrasing services in terms more likely to be perceived as relevant, it is also possible to deliver the same service in a way that better suits the target client.

ThinkPlanSave (referenced earlier in figure 6) offer a "Monthly Planning" service, which they describe as follows, "ThinkPlanSave will gently nudge you along to accomplish your goals and keep you accountable throughout the year."

In substance, the aims of this service are no different from the standard quarterly / annual portfolio review or planning update meeting. By making the service monthly, the interaction is re-worked as a means of providing consistent guidance on meeting the goals agreed upon.

[28] Disclaimer: All points in this paper are arguable. Please get in touch if you would like to argue in real time rather than at your screen.

2

Given that the majority of actions in a financial plan remain incomplete if left up to the individual, this is not only imaginative but value-additive. Additionally, given that the actions (or lack thereof) of younger clients have a far greater potential to affect their ability to meet their eventual retirement goals, the value of constant gentle nudging is a critical feature and not just a nice-to-have.

Refining: Making relevant features

Re-wording what we do is a necessary first step. But in some cases, we will need to substantially change the offering itself if we are serious about meeting the needs of a different target group.

This is why we see new services relating to life and career management (e.g. salary benchmarking, negotiation coaching), debt and credit score management (e.g. student loan payoff strategies, credit score review and improvement plan), major decision support (e.g. home purchase assistance) and financial education (e.g. identify theft prevention).

What does this look like in practice? **Upswing Advisor** provides a great example of an offering modified for relevance.

Source: http://www.upswingadvisor.com/ Figure 11

2

The third column[29] is a great example of a service that is relevant to the younger prospect and understandable enough to be an attractive differentiator. For the frequent traveler, travel hacks and the resulting savings can add up to hundreds of dollars or even thousands per year, materially boosting after-tax income (or reducing the advice fee – depending on how one views it).

Reordering: Prioritizing the existing suite

Some planners go to extraordinary lengths to distance themselves from the appearance of being staid and conventional. Chief among these is the 'Financial Gym'.

The dull-sounding and unapproachable concept of 'financial planning' is ingeniously re-invented through the metaphor of a gym membership. The Certified Financial Planner becomes a "Certified Financial Trainer." "Membership" to the scheme is charged, naturally, on a monthly subscription basis (from $85 per month – a comparable price point to an actual gym), and gives members, "All-day access to Financial Gym locations," with "Unlimited snacks, wine, and beer."[30]

Source: https://financialgym.com/ Figure 12

The home page displays a group of casually attired "CFTs", projecting the opposite impression from the austere financial advisory practice.

[29] The first two columns are also of interest to any advisor looking to communicate with their clients in a recognizable version of the English language.
[30] Whereupon the analogy abruptly and unexpectedly breaks down.

True to the fitness training archetype, the homepage prominently displays three 'common goals' that the Trainers can help with:

1. Paying Off Debt
2. Buying A House
3. Saving For Wedding.

'Retirement' is notably absent from the front page and comes *last* in the full list of topics covered on the service page, which includes 'Budgeting & Saving' and 'Travel Hacking'.

2.3 Offering Structures

We have discussed new target clients, and a revamped service offering that meets their needs. The final step is how to package it all together.

If we were using the traditional 'All You Can Eat' approach favored by wealth managers, we would lay out the full list of features in a classic yada-yada string of bullet points.

As noted in the introduction, XYPN advisors are increasingly departing from this 'All You Can Eat' approach as it is difficult to mentally process and removes client choice.

The real *commercial* problem with an 'All You Can Eat' model is that the amount 'eaten' can vary significantly from client to client, meaning that profitability will also vary.

It is commonly supposed that the alternative to an all-inclusive offer is to charge clients separately for every interaction: effectively All You Can Eat versus á la Carte. However, the choice is not binary.

There are at least three midway options in between All-You-Can-Eat (AYCE) and á la Carte (ALC), each of which are suited to different offerings and different target groups. We'll define them before proceeding with some applied examples.

Packaging – What are the options?

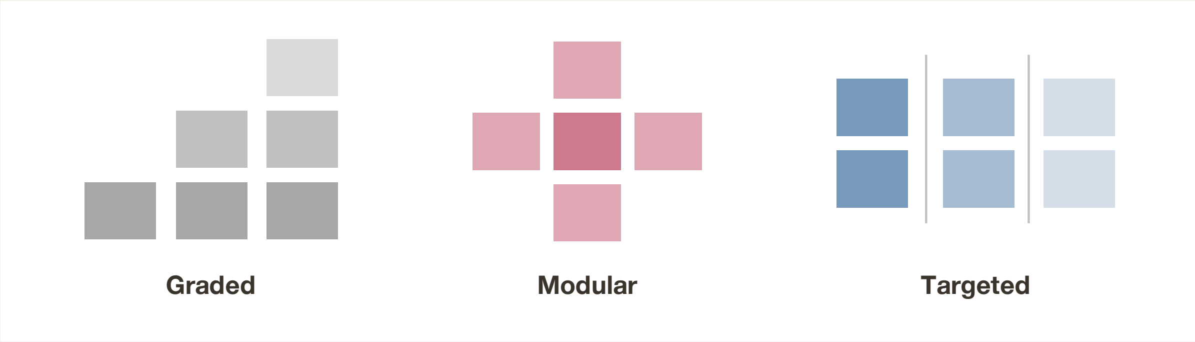
AYCE offers work when most people want most things, and there is little variation between client types (this is why it works in buffets – no one can eat 500 plates of food at one sitting[31]).

[31] Please don't write in.

2

ALC is suitable in an opposite situation, where there is limited commonality of needs, and everyone can be expected to want their own tailored proposition. The tailored suit is a good example, since few people have exactly the same dimensions.

The middle ground is inhabited by offer structures that reflect a certain degree of needs commonality. They are classified here as **Graded**, **Modular** and **Targeted**.



Source: Simon-Kucher & Partners

Figure 13

i) Graded: Packages of increasing value (Good-Better-Best), with the components of value 'fenced' (i.e. A is included in every package, but to get at feature B, you must buy package 2 or 3). One uses this when the needs of a group are reasonably homogeneous, but differ in the extent to which clients require certain additional services.

ii) Modular: The offering is broken up into blocks of services that go naturally together, and a client can select which of these blocks they wish to include. It differs from ALC in that the services are not individually broken down into a long list, in pure menu form. One uses this approach with less homogeneous markets, where a core set of needs is still common.

iii) Targeted: This is similar to the Graded approach, but here the services are grouped not in ascending order but by target client type. Each bundle represents a holistic, standalone offer that is meant to fully meet the needs of a target group. It works in markets that consist of distinct groups whose needs do not overlap, but within which groups the needs are homogeneous.

Examples of Graded Offerings

In the normal financial planning world, it's common to offer 'investment management' as a standalone option, with 'investment management + financial planning' (generally described as Wealth Management) as a second option. This is a basic form of grading.

i) Lyndale Financial

Lyndale Financial has a similar approach, with the difference being that financial planning is the basic component, and investment management is the add-on. In other words, it is a planning-led offering.

In addition there is a limited scope plan as project-based option, creating an effective Good-Better-Best line-up.

In the example below, the fencing of value occurs at a topic level. To obtain investment management advice, one must opt for the 'third package'.

Fee-Only Financial Planning

Project-Based Plan

If you have a few pressing financial questions you need answered, a Project-Based Plan is for you.
This service is for individuals that need support in just one or two areas.

Initial Financial Plan

Are you looking for a complete and in-depth analysis of your finances? With our Initial Financial Plan, you will receive your own personalized and comprehensive plan.

This is completed over a series of one-on-one meetings with your planner, during which we use interactive online software, so you can see all of your personal finances in one place.

After our engaging discussions and recommendations, we provide you with a written plan summary that clearly explains the action steps for you to take next.

Ongoing Financial Plan and Investment Management

After the completion of your Initial Financial Plan, we offer an all-inclusive financial planning and investment management service.

With ongoing planning, we are able to provide advice on anything that has to do with your personal finances.
We help you keep your plan up-to-date as your life evolves and manage your investments to align with your financial goals.

In implementing your financial plan, we will work collaboratively with your CPA, attorneys, mortgage brokers and insurance agents as needed.

Source: https://www.lyndalefinancial.com/services-2/ Figure 14

2

ii) Modern Money Advisor

Financial plans are often graded by complexity at the advisor's discretion, but in some cases they are graded by feature. Here, the features are itemized and the options set out for the clients to choose.

Modern Money Advisor, mentioned earlier as an example of effective 'productization' of advice, has four grades of financial plan, arranged in order of feature-load. High-touch features and services such as 'insurance review' and 'college funding review' are reserved for the firm's premium offering – the Ultimate Planning Package, which sells for $3,496.

MODERN MONEY ADVISOR

Planning Packages

	Ultimate Financial Planning Package	Retirement Readiness & Income Planning Pkg	Student & New Grad Planning Package	Group Financial Challenge 4-person Minimum
Budget: Income & Expenses	✓	✓	✓	✓
Spending Plan	✓	✓	✓	✓
Virtual Meetings or Face to Face	✓	✓	✓	✓
90-Day Initial Planning Phase	✓	✓	✓	✓
Building a Strong Financial Foundation	✓	✓	✓	✓
Employer Benefits Review	✓	✓	✓	
Retirement Planning	✓	✓	✓	
Financial Planning Portal	✓	✓	✓	
Investment Analysis & Strategy	✓	✓		
Estate Planning Analysis: Wills, Titling & Trusts	✓	✓		
Retirement Income & Cash Flow Planning	✓	✓		
Social Security Review & Optimization	✓	✓		
Education on Investments	✓	✓		
Document Vault for Wills & Important Documents	✓	✓		
12 Months of Ongoing Guidance & Implementation	✓	✓		
Insurance Review	✓	✓		
Goals-Based Milestones Strategy	✓			
Debt Elimination Analysis & Strategy	✓			
Student Loan Repayment Strategy	✓			
Wealth Accumulation Strategy & Savings Hacks	✓			
Out of the Box College Funding Planning	✓			
Tax Analysis & Tax Planning	✓			
Bonus: Special Online Financial Workshops	✓			
	12 mos $250/mo*	12 mos $167/mo	3 mos $150/mo	$299/person

WWW.MODERNMONEYADVISOR.COM

* Bi-Weekly payment option available

Source: https://www.modernmoneyadvisor.com/modern-money-financial-planning/ Figure 15

iii) Modern Dollar Financial

Modern Dollar Financial is an example of fencing by *extent* as well as *type* of service. Investment management and financial planning are provided in all options, but higher packages contain a larger amount of advisor time, which creates the possibility for more interactions (e.g. face-to-face meetings), and tailoring of deliverables (e.g. customization of portfolio).

Note that while the packages are choice-based, they have been conceived with particular target segments in mind, as all good packages should be. If they are not conceived this way, there is a danger that a package might be in-complete and leave a client critically under-served – an approach that could be misperceived as a bait-and-switch strategy.

Fee range	$2,500 -4,000	$4,000 -10,000	$10,000
Client experience			
Meetings per year	1-2	2-4	2-4 (travel as needed)
Phone / email access	✓	✓	✓
Client website access	✓	✓	✓
Quarterly Account Statements	✓	✓	✓
Projections	Annual	Semi-annual	Semi-annual
Financial Planning			
Net worth / cash flow analysis	✓	✓	✓
Annual Retirement Projections	✓	✓	✓
Review of Tax Return	✓	✓	✓
Employee Benefits Analysis	✓	✓	✓
Insurance Analysis (Life Disability, LTC)	✓	✓	✓
Referrals to appropriate professionals	✓	✓	✓
Collaboration with Professionals		Limited	Intensive
Charity, Legacy and Gift Planning			✓
Investment Management			
Discretionary management of non-employer portfolios	✓	✓	✓
Use of model portfolios	✓	✓	✓
Tax Loss Harvesting		✓	✓
Incorporate outside positions		✓	✓
Customized Models / Positions as needed		✓	✓
Ideal for			
Asset level	100-500k	500-1.5m	1.5m+
Complexity of financial situations	Less	Medium	High (e.g. business owners))
Sample clients	Younger families	Mid-Career	High Net Worth

Examples of Modular Offerings

The pure modular approach is quite rare as it is complicated to implement, and only really appropriate for markets where there is sufficient variation in needs to justify it.

i) Next Steps Financial Planning

Rather than bundling investment management into a ‘wealth management’ package along with financial planning, or the other way about, one can de-bundle **both**. In other words, a client can have either investment management, or financial planning, or both. This is the approach followed by **Next Steps Financial Planning**.

Investment Management

We will help identify your risk tolerance and risk capacity to make sure you can sleep while your investments are at work. This service starts with a detailed analysis of your current holdings. We then use that information along with your Risk Number® and a develop a plan to put and keep your investments on track to serve your goals.

Financial Planning

We will help put together a plan to cover a limited area of your financial life. This plan will help answer a specific question you may have about a particular item in hour financial future. Some common examples include college planning, employee benefit optimization, and employer retirement plan savings.

Comprehensive Financial Planning

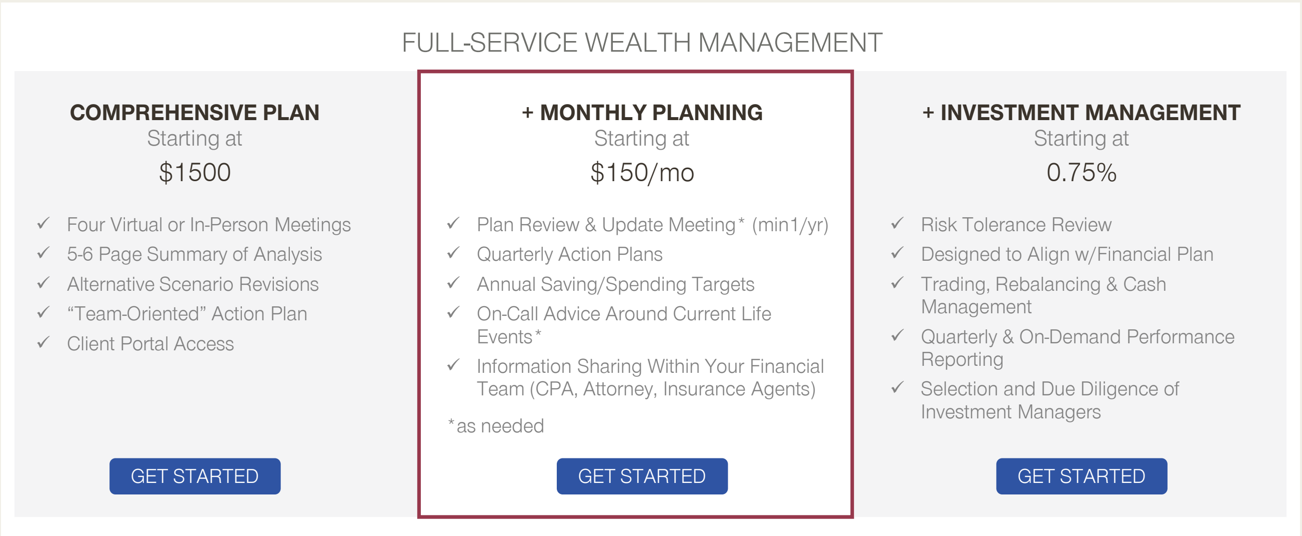
We will review your entire financial life and provide you with a detailed analysis of everything we see. We will systematically address every area to make sure you are getting the most out of your financial resources. This is our top level service hat helps keep you ahead of the game while not breaking the bank due to it. Any financial service that we can provide is included with service at a reasonable cost.

Source: https://www.nextstepsfp.com/

Figure 16

ii) Seven Cedars Wealth

Seven Cedars Wealth goes one step further: here ongoing support is broken out as an additional building block (Monthly Planning). The financial plan constitutes a hard base (Core), and either or both of the two additional modules can be selected in addition.



Source: https://sevencedarswealth.com/services/

Figure 17

iii) Weinberger Asset Management

Another approach to modularization is to combine it with a standard graded offering, with an add-on module as a selectable upgrade. This is the approach of **Weinberger Asset Management**.

Financial Planning and Full Wealth Management form a classic 'good-better' line-up. Marital & Divorce Planning is clearly of relevance to a *limited* portion of the target base and hence makes sense as an add-on module.

Source: https://www.wamasset.com/

Figure 18

If it were included as part of its Private Wealth Management offering, as an item on a string of bullet points, it could strike a jarring note, impacting overall willingness to pay. Furthermore, if it turns out to be relevant (and such things may well not be predictable at the time a client signs on), the advisor must either devote considerable additional resources to supporting the client, or refuse to do so – both of which are problematic from a client profitability perspective.

Modular options include the category of services that can be classified as project-based – college planning services for instance, or options that exist for the benefit of DIY-minded individuals, who simply want to retain the advisor's expertise for a specific, short-term goal.

Typically, advisors explicitly identify project-based engagements as separate from their core offerings. As mentioned in Chapter 1, there is often a project-based fee-schedule intended for this type of engagement.

Examples of Targeted Offerings

The Targeted approach is the rarest of the three offering structures. While the other two structures are all geared towards target segments, the 'targeted' structure in this section is defined as an offering that is standalone (i.e. not a module) and not part of an identifiable linear progression (i.e. not part of a graded line-up of ascending value).

i) ProsperiTea Planning

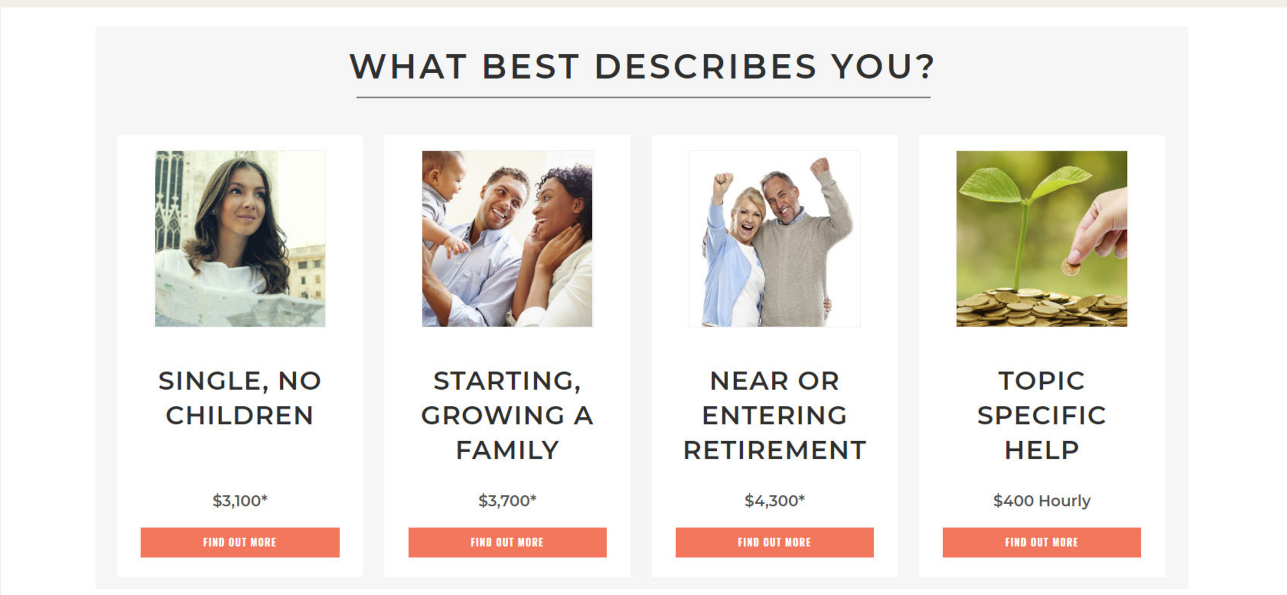
One of the more left-of-field offerings both from a content and structure perspective is provided by **ProsperiTea Planning**. The line-up consists of four options:

1. **ProsperiTea Planning** Open Retainer: for clients who require tax planning & preparation, investment management and financial planning (tax can be de-scoped).
2. **XY Tea Model:** for clients who only require some services and are comfortable meeting twice per year. The title suggests this is aimed at younger clients.
3. **Tea T.I.M.E.** (Taxes and Investment Management Experience): For clients who have a financial plan in place and require investment management and tax preparation only.
4. **Project-based Financial Planning:** for clients who only require financial planning support on a limited basis.

Here, one could potentially order the packages 4 –> 2 –> 3 –> 1 in ascending order of coverage, but they have not been conceived this way, and do not fit a neat linear spectrum. Essentially, they are built around the different types of clients whom the planner has encountered, and the type of tax support they need.

ii) MainStreet Financial Planning

MainStreet Financial Planning has a more visually intuitive, menu-based approach, with each package named after the life-stages of its target segments. A prospect can identify the right package without effort. This greatly assists in 'selling' as the packages make intuitive sense[32].



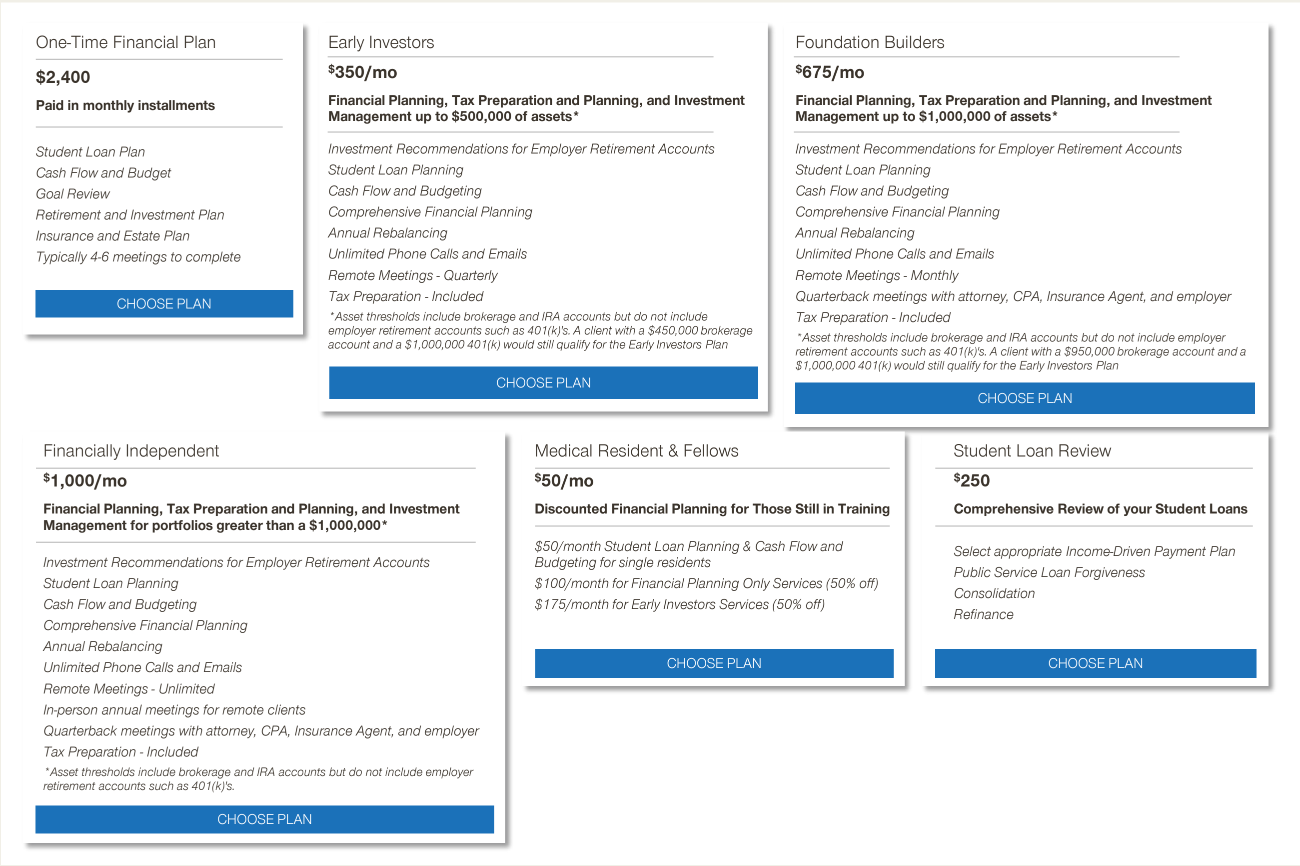
Source: https://www.mainstreetplanning.com/services/initial/ Figure 19

iii) CMG Financial

A more elaborate approach to targeted bundles is provided by **CMG Financial**, which also names packages after the target segments, using a mixture of life situation and stage of financial development.

[32] This is also an example of how 'hourly fees' can be made more palatable and acceptable to avoid sticker shock. See Anna Sergunina's full interview on Michael Kitces' Financial Advisor Success Podcast at: https://www.kitces.com/blog/anna-sergunina-podcast-jim-ludwick-main-street-financial-planning-hourly-fee-only-garrett-planning-network/

2



Source: https://cmgfin.com/

Figure 20

This ‘store-front’ approach is an interesting one. Despite being potentially overwhelming, one receives the impression that the planner has thought carefully about the client and wants to meet their needs as precisely as possible. This is about as far away from AYCE as it is possible to get without going full unbundled (ALC).

Furthermore, a closer inspection of the CMG Financial Offer reveals an added layer of nuance. The **One-time Financial Plan** and **Student Loan Review** are both standalone options (potentially entry-level options, prior to entering an ongoing relationship). While the three packages – Early Investors, Foundation Builders and Financially Independent – follow a good-better-best offering continuum. The ‘Medical Resident and Fellows’ package, a clear case of targeting, further subdivides into a good-better-best line-up of its own (leading step-wise to the Early Investor package). This gives the advisor options as to how best to on-board a client, while offering full price transparency from the outset. In terms of offering sophistication – this model is hard to beat.

3 Pricing: How to charge for it

Pricing models that rely purely on AuM do not work in the XY space. Additional fee metrics make it possible to serve non-traditional clients profitably

Charged based on:

ASSET LEVEL	INCOME LEVEL	SERVICE LEVEL
Graded minimums	Pure income	Complexity
% of savings and investments	Income and net worth	Access to advisor
% of assets under advisement	Household income and net worth	Implementation support

3

Just as different segments require different propositions, one would expect the pricing approach to also be different. The chief reason for this, as we already observed in the introduction, is that charging based on assets is not a great way to monetize a service for clients who don't have them, or can't hand them over to be managed.

From a profitability perspective, the AuM% model rewards the wealth manager targeting the client with $1 million or more in investible assets, and severely punishes the wealth manager who targets clients with assets below $100,000. One of the tragedies of the robo-advisor revolution is that the primary agents chose to innovate on price level and not price metric and structure. The movement started by Betterment and Wealthfront should have built upon automation of low-value activities to make higher-value human-based advice available to a broader group of clients. One could argue that it eventually led to this outcome, thanks to the emergence of Turnkey Asset Management Programs (TAMPs) and other platforms that allow advisors to outsource activities that are better automated.

However, the mission of automation remains to a great extent that of minimizing the human element in pursuit of the cheapest possible outcome, leading inevitably to a lower-value proposition and a potentially value destructive 'race to zero' as larger firms enthusiastically leverage scale to gain market share.

Contrary to the good intentions of these innovators, using an ultra-low AuM% pricing approach works directly against consumers with low assets who want holistic advice. Why is this? Because charging a smaller percentage than usual on a smaller asset base than usual is the perfect way to generate eye-wateringly low revenues per client, making quality human advice commercially impossible to provide.

For the XY planning movement, which started and remains a human-rich proposition, simply charging a lower AuM fee was never an option. As Michael Kitces writes, "[XYPN] was an *advice* proposition aiming to fit a pricing model to the (advice delivery) service model. The industry's robo movement was about retrofitting a (robo) service model to an existing pricing model (AUM)."

The first problem to solve is how to generate revenues using an **alternative price** metric to one purely based on AuM%. The second problem is to find a new **price structure**, or logic for calculating how much to charge for a given level of service (the previous price structure is essentially: more assets –> pay more in $ fees).

3

3.1 New Price Metrics

There are three broad approaches to fee metrics: **asset-related**, **income-related**, and **service-related**.

Ultimately all fees are charged and paid for in **dollars**. The basis of calculation may change, but it is ultimately a question of framing.

It is also worth noting that the introduction of new metrics does not mean the total elimination of AuM-based fees. Quite the reverse: 74% of the models surveyed contain an asset-based component in the fee structure[33].

What *is* clearly taking place is a diversification of fee sources away from *purely* AuM-based metrics, making it possible to serve clients with illiquid or held-away assets, and clients with insufficient assets.

Asset-related fees

One way to address the problem of how to charge clients with insufficient / illiquid asset, while still employing an asset-based pricing metric, is to adjust the definition of assets away from 'assets under management', or to alter the qualifying underlying minimums. Here are three examples:

Assets Under Advisement

Financial Design Studio has a dual fee schedule, which captures both "assets managed" and "assets in place" (i.e. held elsewhere). The fee charged upon "assets in place" is lower, but not zero. This can be justified because a holistic advisor is advising on a client's entire financial situation, not just the portion of money he or she manages.

AUM/AUA Fees

Assets	AUM Fee	AUA Fee
Greater than $10,000,000	.50% Annually	.25% Annually
$5,000,000 – $9,999,999	.60% Annually	.30% Annually
$1,000,000 – $4,999,999	.80% Annually	.40% Annually
$500,000 – $999,999	1.00% Annually	.50% Annually
$100,000 – $499,999	1.25% Annually	.625% Annually

AUM: Accounts managed at Charles Schwab & Co, Inc. **AUA:** Accounts that need to stay in place (ex. 401(k), 403(b)

Source: http://financialdesignstudio.com/services/packages-pricing/ Figure 21

[33] Although as noted, the fee is considerably lower compared to the prevailing market standards, as it is an unbundled fee.

3

Total Savings & Investments

Another way to expand the scope of the asset-based fee is to go explicitly beyond investments and cover savings as well. This may be more appropriate for clients without formal investment accounts, and helps to counter the perception of financial advice as being about investment management only.

This is an option offered by **Thoughtful Financial Planning**, alongside a graded monthly fee (which is used as an effective minimum revenue per client).

Value of Investment and Savings Accounts	Multiplied by the Monthly Fee Factor	Monthly Fee is based on an annual rate of
First $500,000	0.00083	1.0%
Next $500,000	0.00066	0.8%
Next $1,000,000	0.0005	0.6%
Next $1,000,000	0.00033	0.4%
Over $3,000,000	0.00016	0.2%
Subject to a minimum of: - $200 per month for 1 client - $300 per month for 2 clients - $300 per month for 1 legally married client planning without their spouse		
Unusually complex cases may have a higher fee than indicated above and will be agreed upon in the client agreement.		

Source: https://adviserinfo.sec.gov/IAPD/Content/Common/crd_iapd_Brochure.aspx?BRCHR_VRSN_ID=476660 Figure 22

Graded minimums

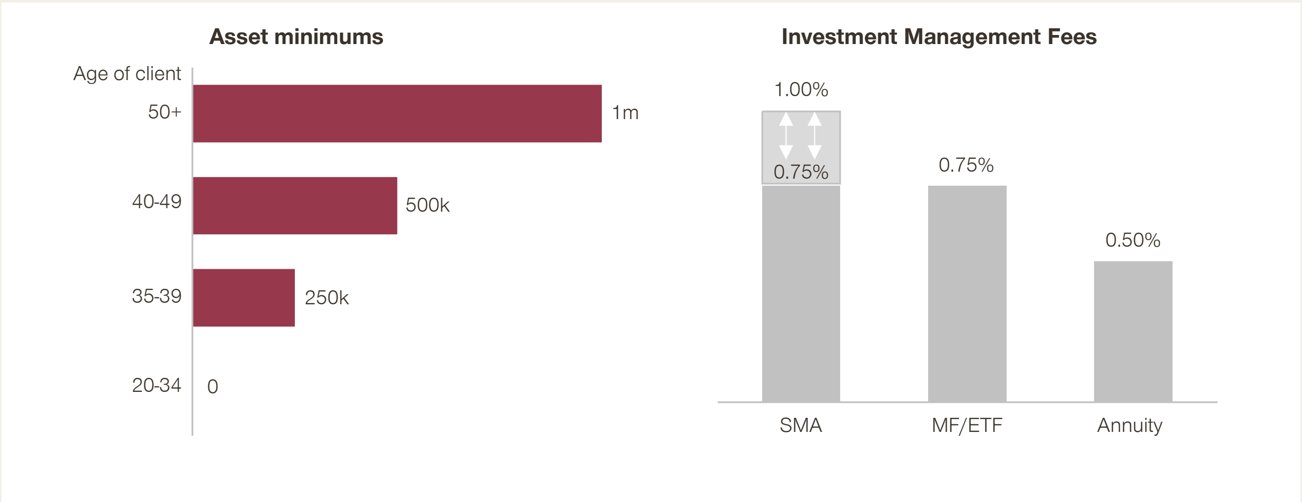
The problem of insufficient assets (as opposed to illiquid / held-away) is harder to work around. It is typically addressed by having an alternative fee metric such as a minimum fixed fee (as in the previous example).

However, one half-way house solution is to have *lower minimums* for clients who are perceived to have require less effort to serve. This is what we see at **Heron Wealth**. (Figure 23)

In addition to requiring lower minimums for younger, less complex clients, there is also the ability to decrease the bps charged, based on the type of investment selected.

While the above examples show that the asset-based approach can be modified, it is worth noting that **all three providers in the examples above use fixed fees as an alternative or additional pricing metric**.

3



Source: Simon-Kucher & Partners

Figure 23

In conjunction with an asset-based approach, a fixed fee option serves the function of a "profitability protector" to create an effective revenue floor. This makes it possible for the advisor to guarantee a minimum level of service for every client, instead of cringing when low-revenue clients call or request additional services.

Income-related

Some firms describe the difference between asset-based and income-based fee metrics, by drawing the distinction between paying 'from investments' and paying 'from cash flow'. This is an accurate description, as well as being a good mental frame for the fee.

Pure income-based

Sycomore Financial calculates its monthly fee as 1.5% of gross monthly income, and has an up-front charge of 3x the monthly fee.

The fee is reviewed biennially and capped at $400 per month (which kicks in when gross income exceeds $320,000 per annum).

Income / Net worth

Some advisors would like to serve both asset-rich and income-rich clients. One way of doing this is to use a combination of income and net worth-based metrics.

3

Clients may begin with a good income but an indebted balance sheet, and over time, pay off debts and realize assets. With a dual fee structure, the net worth component of the fee grows over time and comes to dominate the income-based alternative, leading to an increase in fees over time.

Bespoke Planning is an example of this approach, charging the greater of 1.2% Gross Income or 0.3% Net Worth.

An annual fee, paid monthly.

A simple formula will be used to calculate your fee at the beginning of the client relationship, and will be recalculated at the end of every calendar year. The annual fee will be broken down into 12 monthly payments and will be billed monthly just like all of your other monthly bills.

The annual fee is calculated as follows:

The greater of 1.2% of Gross Income or .3% of Net Worth

New clients also pay an initial startup fee of $500.

The following chart has been provided to give an idea of what your monthly fee might look like, based on either your Gross Income or Net Worth (Assets - Liabilities).

The greater of 1.2% of Gross Income – OR - .3% of Net Worth

GROSS INCOME	NET WORTH	MONTHLY FEE
$100k	$400,000	$100
$150k	$600,000	$150
$200k	$800,000	$200
$300k	$1,200,000	$300
$400k	$1,600,000	$400
$500k	$2,000,000	$500
	$3,000,000	$750
	$4,000,000	$1,000
	$5,000,000	$1,250

Source: https://www.bespokeplanning.co/pricing/

Figure 24

Income + Net Worth

Another approach is to charge on both income and net worth. **Onyx Wealth Management** uses a combination of **Total Household Income** and Net Worth as the basis for the recurring fee. The pricing of both metrics is tiered in this case, unlike the previous example. (Figure 25)

Service-related

Often, the fee is not stated as a percentage of assets or income, but as a standalone fixed dollar recurring fee, be it periodic (monthly, quarterly or yearly) or one-off (up-front, hourly, limited scope engagement).

This approach is therefore a method of framing where the amount charged is not linked to the characteristics of the client, but to the nature of the service itself.

Total Household Income			Net Worth		
1.75%	On the first	$50,000	0.00%	On the first	$50,000
1.00%	On the next	$200,000	0.55%	On the next	$4,950,000
0.55%	On the next	$250,000	0.35%	On the next	$25,000,000
0.35%	On the next	$500,000	0.20%	over	$35,000,000
0.15%	over	$1,000,000			

Source: https://docs.wixstatic.com/ugd/730bfb_5cf484137b9944f58d59037ff132ccd5.pdf

Figure 25

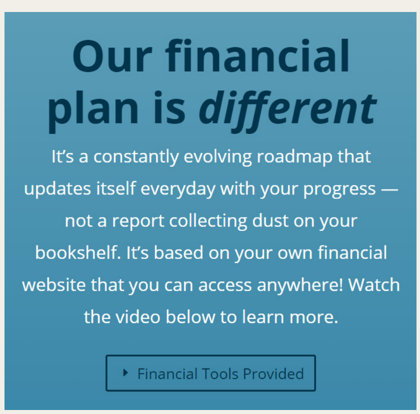
Periodic fees

While **yearly** and **quarterly** fees do exist, the most commonly used structure is the **monthly fee**. It is also the one most closely associated with the XY pricing model (although as we have seen it is generally part of an *ensemble* rather than a standalone revenue earner).

Why does it make sense?

As we have seen, in the XY universe, 'financial planning' is 90% verb and 10% noun (rather than the reverse, which is true for retirees), and often takes the form of short, regular check-ins, rather than a formal annual sit-down to 'review the plan.'

This is expressed well by **Iron Mountain Financial Planning** in the description of its planning service, which clients purchase as a monthly subscription.



Source: http://imfinancialplanning.com/

Figure 26

3

Narrow Path Financial publishes an 'Ongoing Financial Planning Calendar'[34] on its website, in order to illustrate the continuous nature of the value delivered.

Ongoing Financial Planning Calendar

	January	February	March	April	May	June	July	August	September	October	November	December
2018	Budget/ Spending Analysis	Emergency Reserves Update	Tax return preparation	Beneficiary Review / Update and asset titling	Accounts Contributions (IRA, Roth IRA, SEP IRA, 529, Health SA, etc)	Check Annual Credit Score	Social Security Planning and review	Estate Planning	Employee Benefit / Open Enrollment	Debt assessment	End-Of-Year Tax Planning Review	Disability Insurance Check-in
2019	Financial Health Assessment (Financial Ratios)	Retirement & Overall Financial Plan Projections	Tax return preparation	Budget / Spending Analysis	Accounts Contributions (IRA, Roth IRA, SEP IRA, 529, Health SA, etc)	Credit Card Benchmark Analysis	Beneficiary Review / Update and asset titling	Property & Casualty Insurance Review	Employee Benefit / Open enrollment	401K Election Review	End-Of-Year Tax Planning Review	Life Insurance Check-In
2020	Emergency Reserves Update	Discuss / Update Financial Goals	Tax return preparation	Portfolio and Investment review	Accounts Contributions (IRA, Roth IRA, SEP IRA, 529, Health SA, etc)	Mortgage Analysis	Umbrella, and other special insurance	401K Election Review	Employee Benefit / Open enrollment	Update College & Retirement Projections	End-Of-Year Tax Planning Review	LTC, Medicare and retiree health care

Source: https://narrowpathfinancial.org/annual-client-services-calendar/

Figure 27

One-off fees

Project-based and Pay As You Go structures are two common adjuncts to the main pricing model. They are designed for clients who want temporary support. This pricing structure is generally hour-based and hence simple to calculate.

3.2 New Price Structures

Having determined how to express the fee, the fee level that a client pays must be determined. This should be determined by the service being delivered, and also potentially by the total number of services being availed.

First we will examine how to determine price levels for individual services.

Price structure for individual services

In the case of fees that are not linked directly to an asset or income-based variable, the advisor should ideally calculate the fees using some form of repeatable commercial logic, rather than gut feel.

As can be seen from the ranges quoted in Chapter 1, fixed dollars fees are the most fluid area of wealth management pricing currently. Firstly, it can be hard

[34] See Kitces.com https://www.kitces.com/sample-annual-client-service-cal-dar-gen-x-gen-y-monthly-retainer-clientele/ for the genesis of this concept.

to predict how much 'value' a client will require from an advisor. Secondly, even if it can be predicted, there are no rock-solid methods to quantify the value of advice.

The value of advice should, in theory, be a function of the frequency, duration, and level of expertise involved in servicing a client. Since advice is not the only deliverable, but investment performance is also thrown into the mix, this distinction can become blurred in cases where the advice is covered, completely or partially, by an asset-based fee.

Advisors often argue that advice cannot be boiled down to a simple time-and-expertise based calculation – as the impact of financial advice (e.g. money saved, poor decisions avoided) should also be take into account.

To our knowledge this problem remains unsolved, and we won't attempt a solution here. What we can offer is a summary of three factors that XY advisors are using to determine the level of service (and hence level of fee) they should be assigning to the client.

Complexity

The 'up-front fee' that covers the initial series of meetings, often covering the financial plan itself, is a good case for a complexity-based approach. Many planners can estimate based on certain parameters how simple or complex this initial round of work is likely to be, and can price accordingly. The factors for assessing complexity are sometimes set out in the ADV form.

Guide Wealth Management offers wealth management on a fixed-fee-only basis (minimum of $2,500 quarterly). The firm adjusts the quarterly fee based on complexity factors that include:

- Number of household members
- Amount of financial planning required
- Number and type of accounts
- Net worth
- Life stage
- Business interests
- Real estate ownership
- Trust arrangements

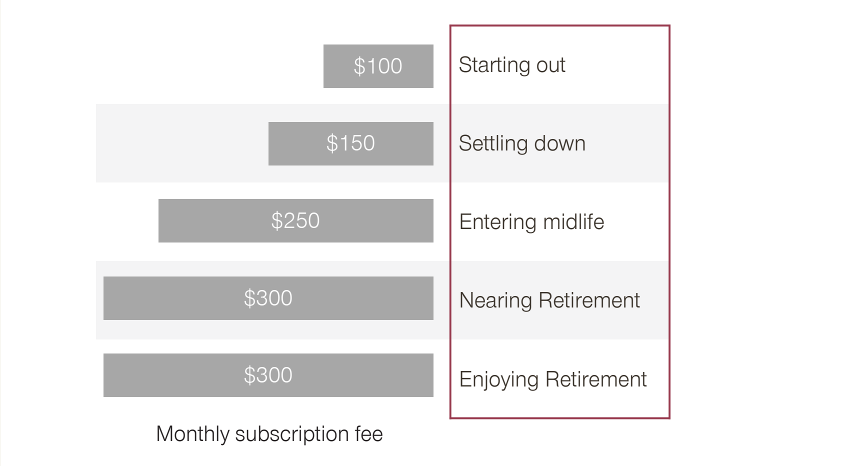
3

Das Financial has a **points-based** system for assessing client complexity, and explicitly links complexity to the up-front fee using the following schedule:

- Basic: (less than 9 points): $1,000
- Intermediate (9-14 points): $1,500
- Advanced (15 points or greater): $2,000

A more rough-and-ready (though not necessarily less accurate) alternative to this approach is to use life stage as a proxy for complexity. The complexity graded subscription fees of **Columbine Wealth** are an example of this.

Life-stage-based subscriptions



Source: Simon-Kucher & Partners

Figure 28

As a side note, this model also reveals that subscription fees work for older clients who, for whatever reason, are more inclined to pay on an ongoing basis. This could be due to an “asset-flow” problem (e.g. business ownership) or a predilection for self-managing investment assets in a brokerage account. The fixed fee model is therefore sometimes a good fit for Boomers and beyond.

First Ascent Financial takes the interesting approach of reflecting the higher effort typically involved in first-year client interactions. The firm charges clients a higher monthly fee in the first year, before reducing it from the second year onwards to reflect the lower amount of effort.

Access to Advisor

As well as expressing the continuous nature of the service, the monthly fees can also be used to express the intensity of interaction.

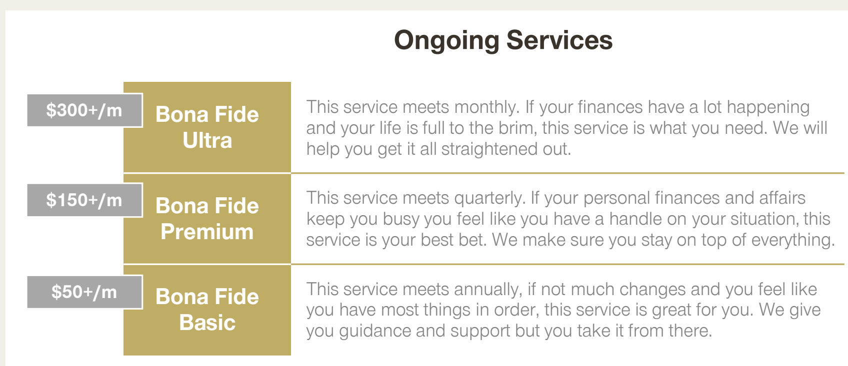
3

First Ascent Financial

Source: Simon-Kucher & Partners

Figure 29

The ascending monthly fees of **Bona Fide Finance** are a good example of this – going from low-touch (for clients who feel they have most things in order) to monthly (for clients who have a lot going on).



Source: http://bonafidefinance.com/services-current/

Figure 30

With a differential of x6 between the lowest and the highest monthly fee, Bona Fide's three service options – basic, premium and ultra – efficiently capture price elasticity and willingness-to-pay for financial advice. It is also a smart way of setting expectations with a client who can clearly see the level of service they can expect for the fee that they are paying.

Another good example is **MainStreet Financial Planning.** Attentive readers will have noticed this firm also appears in Chapter 2 as an example of targeted life-stage based packages (essentially complexity-based pricing). However, these packages are for the up-front, initial planning phase. For *continuous* services, the switch is made from complexity-based to service-based, as the ongoing service model is more likely to be determined by preference than financial complexity alone.

Source: https://www.mainstreetplanning.com/services/continuous-services/ Figure 31

The common objection to establishing explicit service levels is that they may lead to awkward situations where the advisor has to 'put the phone down' on a client, potentially at a point in their lives when they are most in need. This need not be the case.

Having explicit service levels with price points enables a client to choose, rather than have imposed upon them, restrictions on service. If emergency services are needed, it is at least clear that the advisor is doing the client a favor. And if a sustained higher level of service is requested than initially agreed, the advisor is justified in suggesting that the client move to a higher fee schedule.

Implementation Support

A third lever of value, on top of the expertise and time required for the initial plan, and the amount of contact during the year, is the amount of additional leg-work an advisor may commit to take on, pursuant to the implementation of the recommendations in the plan or arising from the client's changing financial situation.

This includes, but is not restricted to, activities that advisors might otherwise leave to the client as actions to be completed before the next meeting.

WorthyNest[35] offers clients two levels of services. Described as "Done For You," WorthyNest's Concierge package has a minimum $3,600 yearly fee and promises the highest level of service. WorthyNest describes the alternative package as, "Guidance Without Execution," to convey the service level you can expect.

Here is a sampling of what WorthyNest means by "Done for you":

Estate Planning

- Review Draft Documents prior to Finalizing
- Retitle Assets, if applicable

Investments

- 529 Plan Opening and Oversight, if applicable
- Oversight of Donor Advised Fund, if applicable

Insurance

- Open Enrollment Guidance (i.e. Health Insurance)
- Lead Discussions with Insurance Agent and Evaluate Policy Parameters

Taxes

- Execution of Tax Planning Strategies, if applicable

Price structure across services

Unless services are being delivered on an á la Carte or modular basis, it is generally the case that buying multiple services (e.g. Investment Management and Financial Planning) will result in a lower overall fee compared to buying the two services separately.

When asset or income-based fees are used in combination with fixed fees (up-front or recurring) it is customary to waive the fixed fees when client assets or income exceed a certain amount.

Not only is this logical, as a client with a large asset or income base will be paying handsomely, and any fixed fee component is likely to be unnecessary from a profitability perspective. But it is also psychologically wise to do this, as

[35] For the full comparison between the two packages (it's worth it!) please visit www.worthynest.com/services/ and follow the 'Read this' link under 'Concierge'.

the human brain is sensitive to small losses. The waiver of the salient fixed fee will be appreciated, while the value of the underlying service will be registered owing to the initial presence of the fee.

While as we say it is normal to waive the monthly or up-front fees for asset management clients, but it is also possible to discount the investment management fees for clients who avail themselves of planning services that incur fixed dollar fees.

Trident Financial Planning is a rare but interesting instance of this.

Trident's offering consists of two core programs: **Investment Stewardship** (Portfolio and Account Management) and Comprehensive Financial Planning (Financial Planning only). Clients of the **Comprehensive Financial Planning** program are entitled (but not obliged) to take investment management services at a reduced rate.

ONGOING FINANCIAL GUIDANCE PROGRAM

- **Cost: $1,000** one-time setup fee;
- **$1,500 – $3,600/year**, depending on complexity, but typically:
  - Single client: **$1,500 - $2,400/year**
  - Couples: **$1,800 - $2,400/year**
  - Couples with children: **$2,400 - $3,600/year**
    - paid monthly
  - Investment Stewardship fee schedule reduced by 0.25%–0.50% for investment management services

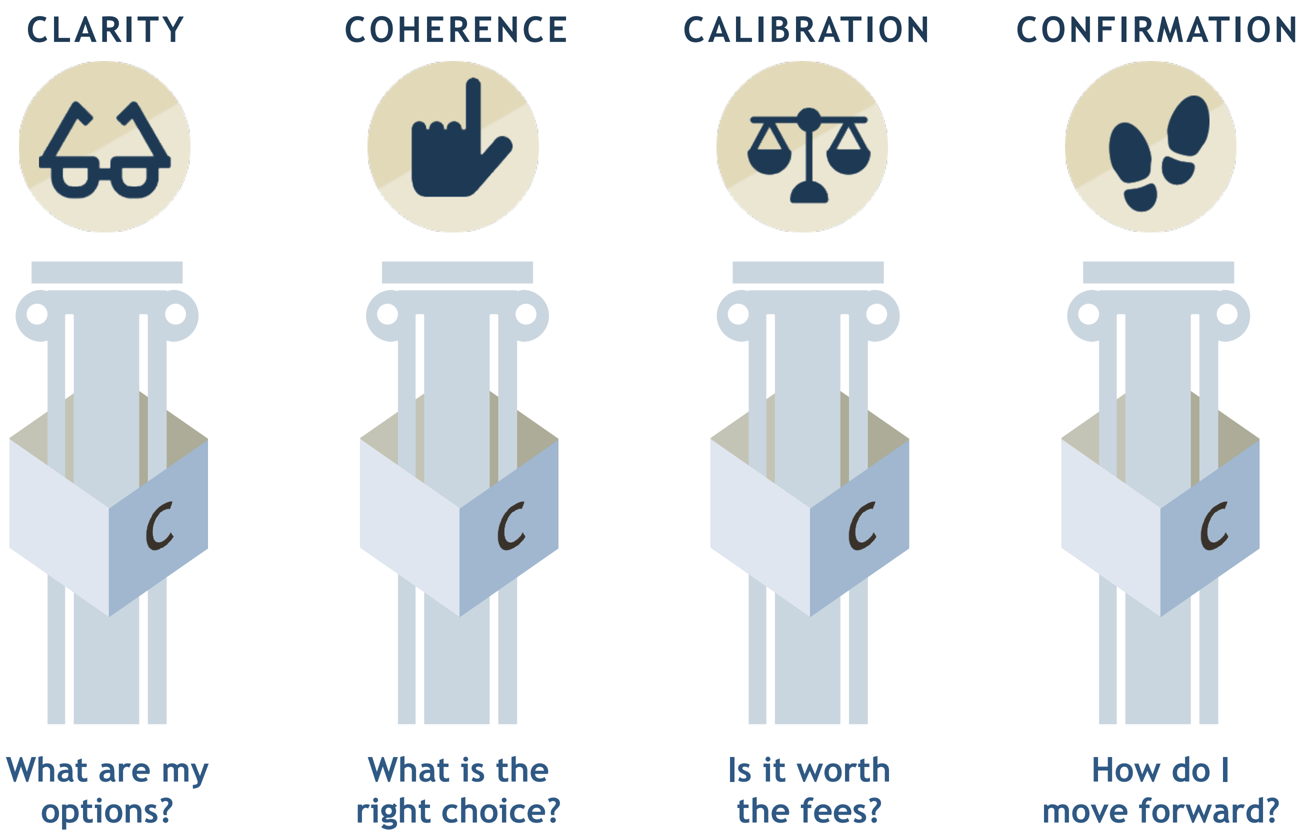
Source: https://www.tridentfinancialplanning.com/family/

Figure 32

In this way, financial planning revenues are essentially used to subsidize investment management revenues, rather than the other way round. Depending on the typical amount of investible assets per client, this may be more revenue efficient. This method of pricing also serves a second purpose, in that it sends a message that financial planning is the core proposition, and asset management services while advocated is not of paramount importance.

4 Presentment: How to communicate it

Wealth management is not well understood to begin with. With a more sophisticated offering, and new pricing structures, clear communication is all the more vital



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The implicit marketing strategy of most advisory firms has been to encourage referrals and wait for them to materialize. In the future (and today, if you are targeting next generation clients) relying on personal referrals is not enough. In a majority of cases, a client's first step will be to look at your offering online. Studies indicate that the decision to move forward (or not) is made in a matter of seconds. Everything in this 'digital mile', in other words, will impact your top line.

You would expect that wealth managers with a focus on Gen XY client segments are above the norm when it comes to presentment. You would be right. An analysis of the taglines (the sentence most prominently displayed on the initial screen of a firm's website) of the top RIA firms shows an average of 12.9 words per tagline. By comparison the typical XY advisor employs just 6.6 words per tagline[36]. That is more efficient use of the limited number of seconds we have to draw a client in.

Of course, it's not just about the number of words, but which words are used, how they are placed, how images are used, and how easy it is for the client to move forward. Take this example from **Wacek Financial Planning** as an example of next generation presentment.

Source: http://www.wacekfp.com/ Figure 33

[36] Also interestingly, the top three words (by word count) found in the taglines of XY firms are 'your' 'financial' and 'you', with the word 'our' in 26th place. For traditional RIA firms, 'our' is in 4th place, and 'you' is in 7th place.

4

If you are indeed a fit for this advisor's service, virtually all barriers to your proceeding to engage his services have been removed. It's virtually impossible to miss the value proposition, what the next step is, and how to take it.

In this final chapter, we're going to examine four areas of presentment (the four Cs) that correspond to the four steps to increase your chances of converting a 'digital referral' from your website or cold prospect into a solid lead:

1: Clarity: *What are my options?*
In order to proceed, a digital prospect must be able to locate the options / service packages available to them.

2: Coherence: *Which is the right one?*
Having identified the options, it must be easy to understand the differences between them, in order to make a choice.

3: Calibration: *Is it worth the fees?*
The offer must be perceived as fairly priced – so both the fee itself and the value must be made obvious.

4: Confirmation: *How do I move forward?*
Once a client has bought into an option, he or she must be able to proceed instantly and without friction.

4.1 Clarity

The human brain has a limited amount of energy for processing information. When presented with excessive visual data, the decision-making system defaults to a shortcut of some kind (which in most cases is to postpone the decision by exiting the page).

Most web pages are still built on the assumption that a client will patiently and methodologically explore every square inch, pausing occasionally to look up unfamiliar words.

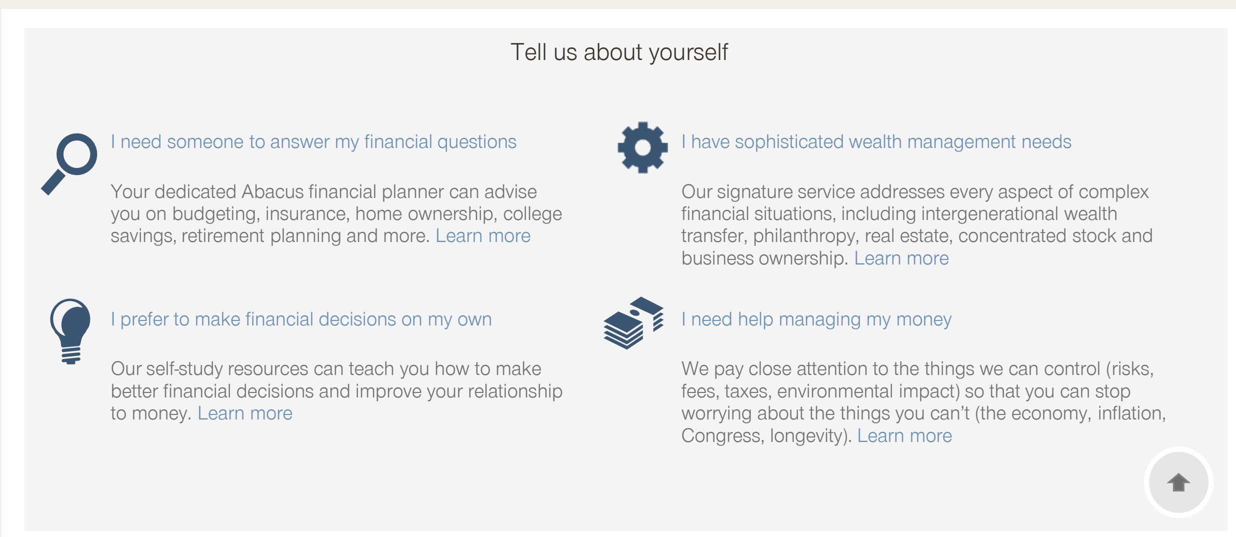
Observing the behavior of clients interacting with wealth management websites, we see it is common to scroll rapidly up and down a page before clicking on the first or last item in the horizontal menu at the top.

This is due to the page design, which is often impossible to navigate without increased mental effort. Such designs are often the result of an inability on the part of the owner to leave out information or images that he or she is attached to. Another reason is the lack of attention given to the logic with which the page or options are arranged.

The best websites are designed with the client journey in mind. **Abacus Wealth Partners** envisions four types of client who may be interested in the services of the firm, and summarizes them neatly on the first page. Having identified a client's situation, it's possible to direct them to the option offered by Abacus that is right for them.

Going clockwise from the top-left:

1. The client with an immediate temporary need (**–> project-based financial planning**)
2. The client with complex needs (**–> ongoing comprehensive planning**)
3. The client who wants money management (**–> investment management service**)
4. The DIY client (**–> self-study resources**)



Source: https://abacuswealth.com/ Figure 34

One benefit of this approach – besides simplifying the journey and granting easier access to the information that is relevant for a client – is that it prompts clients to reflect on what it is they really need.

4

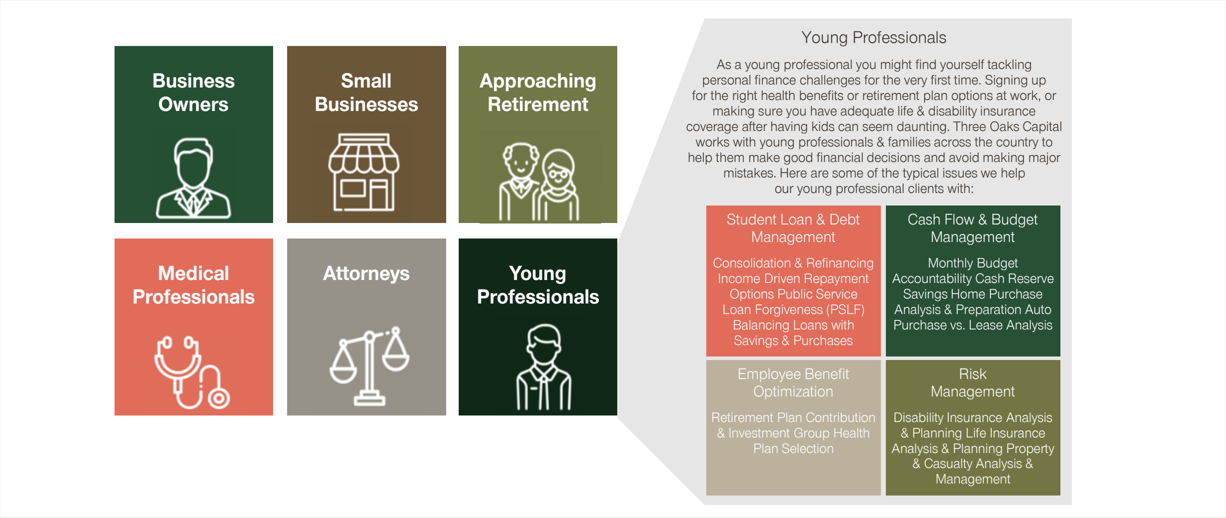
A client with sophisticated wealth management needs, for example, might mistakenly believe that they require investment management only. Putting 'investment management' as an option might lead them to select this and not 'comprehensive financial planning'. By restating the client's situation, a client can be guided to the best solution for their needs.

On its home page, **Atlas Financial** asks "Where can we join you on your financial journey?" This query is followed by a series of life-stage and life-situation choices. Each link takes the user to a description of the package that is suitable for them.

Source: http://www.atlasfg.com/

Figure 35

Three Oaks Capital Management follows a similar approach, with a matrix of explicit client groups, defined mainly by occupation. Each piece leads the user to a specific configuration of relevant services.



Source: https://www.3oakscapital.com/

Figure 36

4

4.2 Coherence

For a client to understand the difference between options and why a particular option is right for them, we need to be able to communicate what a service or package contains. This is primarily a question of words, but can also be assisted by visuals.

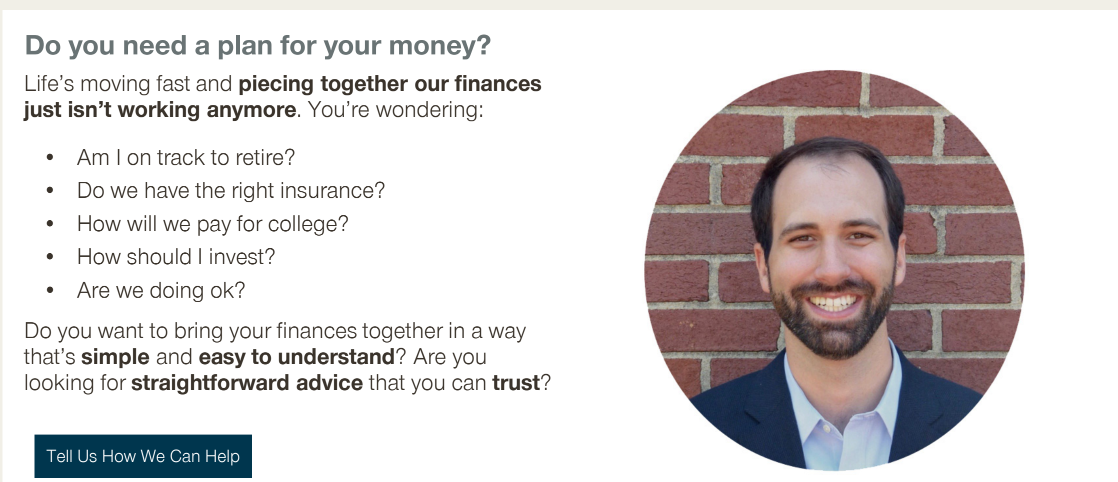
The most common sins of the website designer are verbosity[37], using bland, non-descriptive language that obscures rather than elucidates value, and adding photographs or images that either do nothing to convey the value of the underlying service, or actively add to the confusion.

Rather than focus on bad examples of this (which sadly are not hard to come by), we're going to maintain our focus on how to do it well.

So what does good look like?

Let's deal with words first.

Plimsoll Financial Planning is a good place to start. Take out your pocket watch and time how long it takes to read the words in the screen below.



Source: https://www.plimsollfp.com/ Figure 37

It should have taken no more than twelve seconds.

[37] There may well, unfortunately, be a conflict between SEO directives (i.e. what Google wants) and presentment (i.e. what the client wants), if (for example) the Google algorithm grades a page's "Authority" by how many words are on the homepage. If given a choice between Google and the customer, we would always recommend the customer.

Was it difficult to understand? Did you have to stop and think?

Aside from the economy of language, this opening gambit on the homepage validates the claim that the advisor in question is able to “bring your finances together in a way that’s simple and easy to understand.” These are words that would seem hollow at the end of a rambling list of bullet-points and a paragraph extolling the virtues of risk-adjusted contrarian conservatorship[38].

Continuing in the same vein, let’s take a closer look at the Foundations Package from **The Art of Finance** (referenced earlier in Chapter 3).

See how the planner has labored over the phrasing to distill the end-value of the service to the consumer. Our personal favorite is, “Your marriage’s financial tensions will be eased”.[39]

FOUNDATIONS COACHING

Learn how to take charge, get out of debt and start saving for our future

$600 start-up fee for month 1 + $150 for months 2-6

- Eight personal coaching sessions spaced out over a 6 month period.
- You will learn to control your cash flow in an effective and empowering way.
- You’ll have consistent, non-judgmental accountability.
- You’ll get a personalized strategy for debt attack and savings goals.
- Your marriage’s financial tensions will be eased.
- You will get the chance to ask lots of basic financial planning questions that often go ignored!
- You will become the commander-in-chief of your cash.

Recommended for those under $100k in net worth

Source: http://theartoffinance.biz/services/

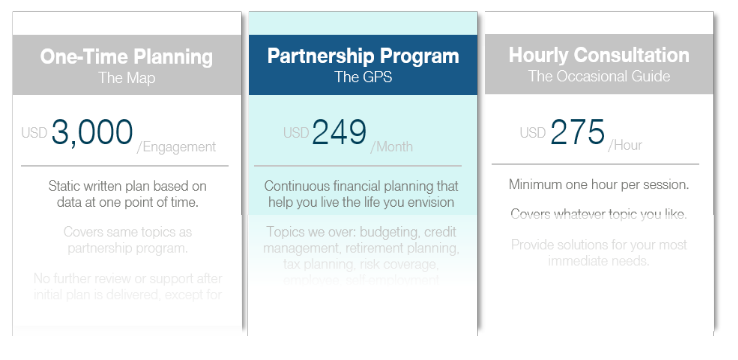
Figure 38

Words are not just about service descriptions. **Nomenclature** is just as important, if not more – as it is more likely to be read than verbiage further down the page.

A first class example is the nomenclature devised by **Pavlov Financial Planning**. The structure of the offer is essentially modular, with three price metrics: fee per engagement, hourly fee and monthly fee) corresponding to the different offer components.

[38] Or something.
[39] Anyone?

The names are intuitive and automatically ratify the choice of price metric, meaning that there is no cognitive friction as the eye moves from the name of the service to the fee. Judge for yourself.



Source: https://pavlovfp.com/services/

Figure 39

Looking more closely, one sees that there are two components. The **functional name** (such as One-Time Planning, Partnership Program and Hourly Consultation) provides a more on-the-nose description of what the service entails; while the **metaphorical name** (Map versus GPS) succinctly describes the difference between what the client receives.

One suspects the latter would play a prominent role in how advisors convey the services in a face-to-face discussion. Since for some clients the metaphorical approach would be unwelcome, it is visually de-prioritized in favor of the more unambiguous description.

Words are undoubtedly the most important tool when it comes to coherently describing one's value proposition.

In theory, the use of pictures and iconography should ease cognitive strain by conveying instantaneously what is in the proposition or the value it brings to consumers, or both. Here is an example from **Open Road Wealth** – not over-crowded, and with images that actually enhance the sense of value.

Pictures and iconography tend to be over-used or used without due care, in which case they merely contribute to visual noise and would be best left out altogether.

This is not due to negligence. It is simply the case that conveying concepts with pictures and images is an art form, and requires an artistic aptitude that is

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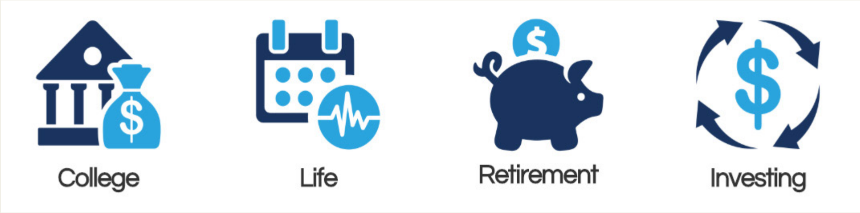
unevenly distributed. The golden rule with pictures and images – **when in doubt, don't**. There are very few websites that fail because of the *lack* of visual noise.



Source: https://openroadwealth.com/

Figure 40

4.3 Calibration

If you are charging more than the competition or looking down the barrel of a price war, or both, the correct response is to demonstrate superior value.

On any plane trip we are unlikely to witness first class passengers challenging flight attendants and demanding that they be charged the same as passengers sitting in coach. One suspects that, even if they could negotiate a discount in return for being downgraded to economy, few would avail themselves of this option. This is because the extra value of flying first class – where you are assigned a seat in a separate cabin amongst other perks – is pretty obvious.

A lot of the panic around fees in wealth management is due to a failure of 'premium' providers to draw a connection between the superior services and the higher fees. As pricing transparency is one of the cornerstones of the XY proposition, the ability to communicate value together with the price is particularly important.

The first challenge clients will face in understanding whether they are paying too much, is figuring out what it is they are paying in the first place. This is made more challenging when providers use multi-part fees, and unfamiliar metrics.

Many XY-focused firms include a link to their ADV form on the homepage, or include a simplified version of the pricing schedule on the website.

Christman Financial Advisors takes the (currently) rare step of putting a fee calculator on the website itself. While making it easier for a client to calculate the fee, the potential danger with many fee calculators is whether they will have the unintended effect of scaring clients away owing to "sticker shock".

This calculator ingeniously circumvents the issue of sticker shock by representing the fee using multiple frames of descending salience (annual –> quarterly –> monthly –> %). This puts the fee in perspective while being thoroughly transparent. It is also flexible enough to work for a decent range of net worth sizes.

Since people don't have an intuitive grasp of the value of wealth management advice, the best framing of fees involves a comparison of some kind. This helps to address the lack of an existing reference point.

Enter your Net Worth: $ 500000 **SUBMIT**

Note: Total assets minus total liabilities: net worth

Your Annual Fee Would Be: $2400

Paid Quarterly: $600

Or Paid Monthly: $200

% of Net Worth: 0.48%

Source: http://www.christmanfinancial.com/wealth-management-calculator/ Figure 41

One such solution, employed by **Skylark Wealth**, involves using the client's own finances as a reference point. The visuals convey 1) the comparative smallness of the fee as a proportion of overall wealth and 2) the effect of paying the fee will be to grow the overall size of the 'pie'. (Figure 42)

A more obvious route is to make the comparison between the planning fees and an existing expense or set of expenses the client may be incurring. **Barson Financial Planning** do not state their fees explicitly, but instead says, "Our retainer model costs less than many gym memberships." This is sufficient to reassure clients that the fee is affordable and understandable.

The *summum bonum* of these efforts is to quantify the value of the service in as precise terms as possible, allowing the client to see concretely that they are receiving more in value than they are giving out in fees.

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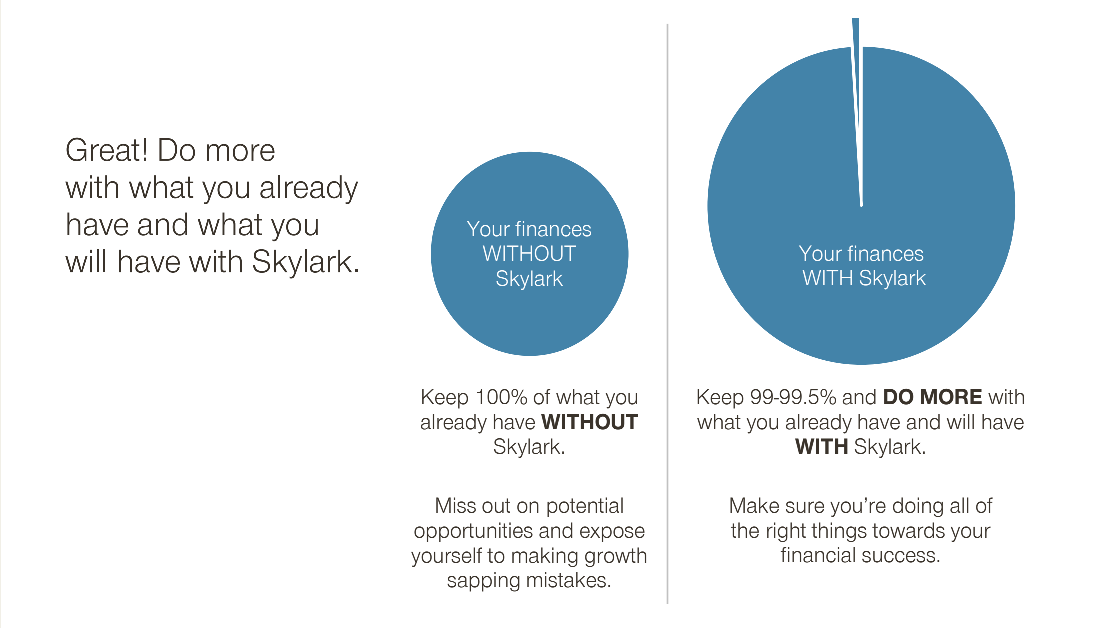
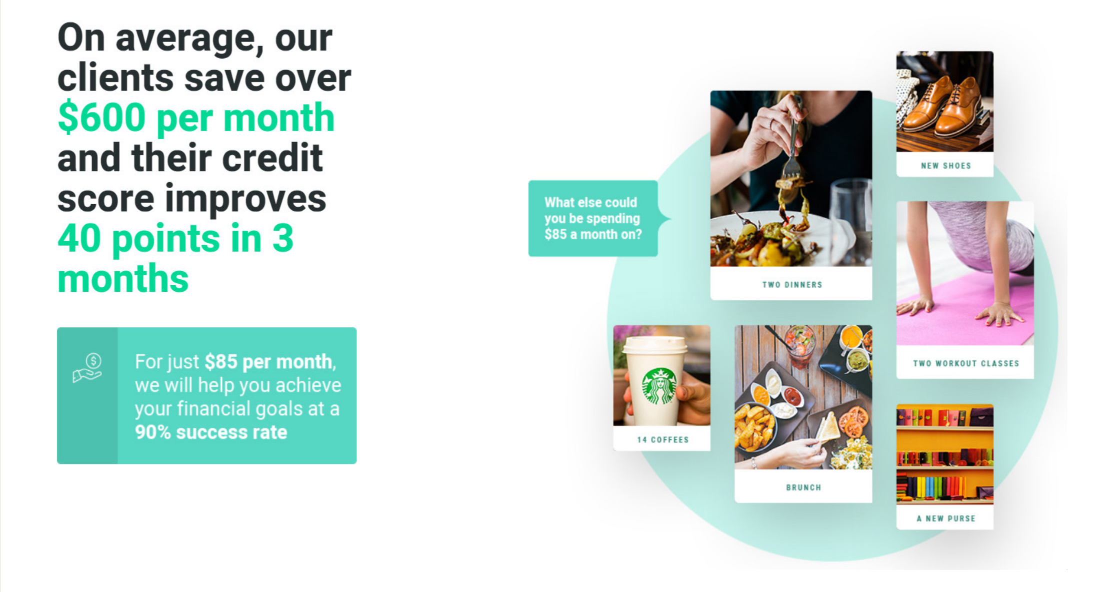


Source: https://skylarkwealth.com/

Figure 42

This is hard to do accurately and without running into legal difficulties. As attempts go, our friends at the **Financial Gym** carry off the prize.



Source: https://financialgym.com/

Figure 43

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The figures quoted on the left (savings, improvement in credit score, success rate) represent the core value of the proposition. They are also measurable and believable.

As an added bonus, there are also some helpful reference points on the right hand side to put the $85 into perspective. The implication is that the fee is affordable, given that the client already uses comparable sums for discretionary activities that may or may not be less conducive to their long-term financial goals.

Another interesting approach is that taken by **WealthCollab**. Whereas typically AuM% is seen as a 'less salient' way of charging fees, in this case the AuM% approach is used to show how comparatively inexpensive the fixed fee model is.

The 'Services' page begins boldly with the header 'Why Fixed Fees?' followed by a graphic that shows the compounding effect of a 1% charge[40]. It is then in a position to show how the fees for its core 'Your Personal CFO' service ($2,400 – $7,500 per year) become steadily 'less expensive' the higher the asset value.

How we compare

PORTFOLIO VALUE	TRADITIONAL FINANCIAL ADVISOR (1% FEE)	WEALTHCOLLAB FEE ($)	EFFECTIVE WEALTHCOLLAB FEE (%)
$1,000,000	$10,000	$7,500	.75%
$2,000,000	$20,000	$7,500	.375%
$3,000,000	$30,000	$7,500	.25%
$5,000,000	$50,000	$7,500	.15%

Source: https://www.wealthcollab.com/services/ Figure 44

Having revealed that the 'true cost' of AuM% fees can run in to the tens of thousands (column 2), it is possible to reveal the fixed fee model that WealthCollab offers for 'Complex Situations', which costs "up to $30,000 per year". This fee is explained by referring to the additional circumstances that constitute 'complex' situations.

40 This page is well worth viewing in its entirety: https://www.wealthcollab.com/services/

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4.4 Confirmation

The final step is the digital ‘close’.

Rationally speaking, a client who has ‘bought in’ – that is, who needs a service, understands a service, and is prepared to pay for a service – should become a client as naturally as night follows day. In reality there are psychological factors at play (e.g. inertia, anxiety about the future) that may lead a client to take advantage of any number of excuses for not proceeding.

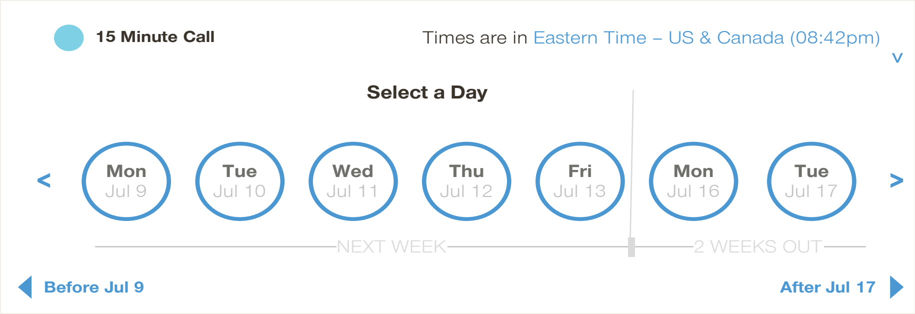
At the critical point of decision-making, we can negatively influence a client’s behavior unintentionally – by adding a few ounces of confusion or frustration, thus tipping the scales in the wrong direction.

If, on the other hand, the next step can be made obvious, frictionless, rewarding and even fun, we can give a client who is truly interested the best chance of making it to the next step.

Starting with the basics: ‘proceed’ buttons should be placed strategically at points where a client might be expected to wish to move ahead (i.e. enter their details and request a meeting). One potential (and fairly common) error is to effectively hide this button by way of an injudicious choice of foreground and background color. This means that the button blends into the surrounding environment. Generally, a contrasting color is best.

Over and above a liberal use of next step buttons, it is possible to leverage modern calendar software both to trigger a sense of urgency and bring the finishing line closer.

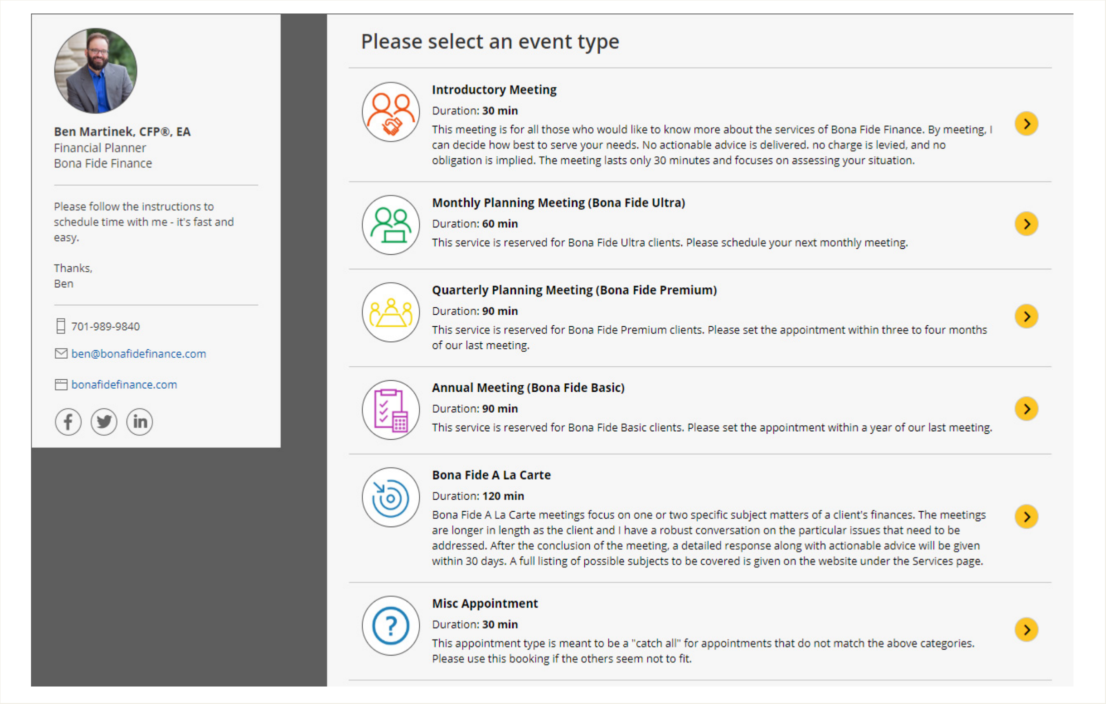
The following strip appears at the bottom of the home page of **Astra Strategic Wealth**.



Source: http://www.astrasw.com/ Figure 45

The default is set to '15 minute call' further lowering the barriers to moving forward.

Bona Fide Finance provides a confirmation page that is not only clear but also segmented by type of preferred interaction.



Source: https://secure.scheduleonce.com/BenMartinek

Figure 46

At a glance one can see that one is not signing up for a non-transparent 'sales pitch' discussion, but one that is tailored to whatever the particular needs of the individual may be. A new prospect can also get a sense for what the offering is like, given that each choice of interaction maps on to a specific level or service (see Chapter 3) in the proposition itself.

The process of setting up an appointment should not only be seamless; but it should also ideally be rewarding and *fun*.

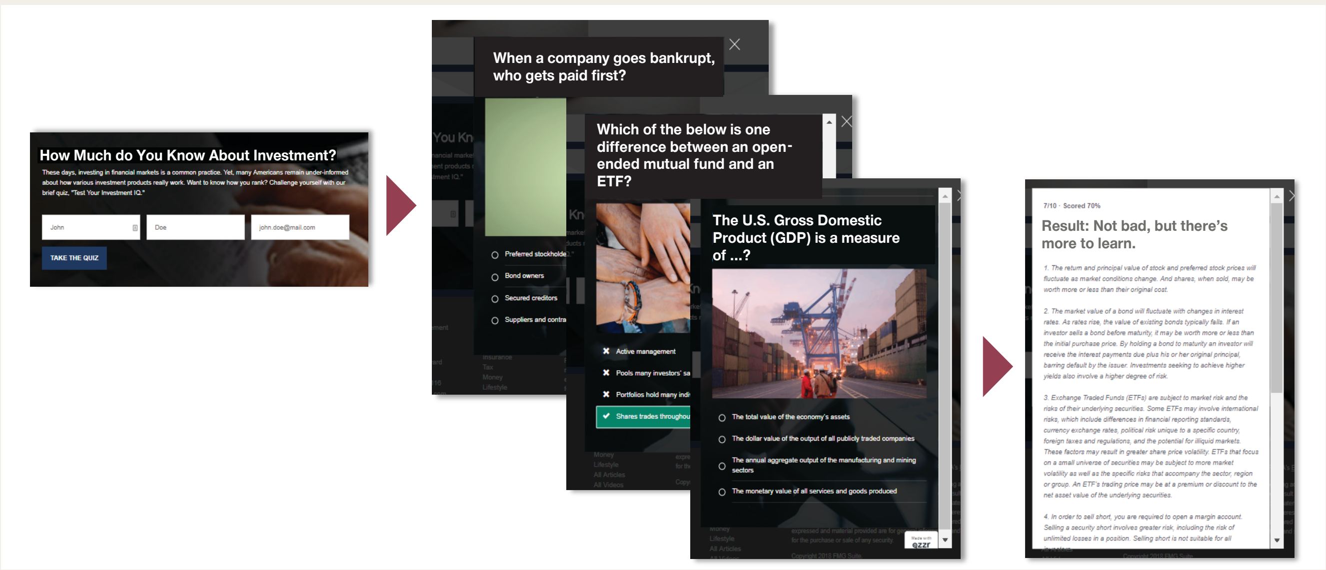
Fun is an under-rated concept. This is because its potency as a motivator is generally under-estimated in a business context[41]. Fun, from a marketing perspective, is best understood from the perspective of dopamine: the pleasure-giving chemical that is released when a goal is met unexpectedly.

[41] For reasons that make no rational sense.

4

The marketing term for this is Gamification, which is defined as “the application of game-mechanics (Challenge –> Achievement –> Reward) to non-game contexts”.

What would gamification look like in the context of financial advice? Let’s turn to **Weinberger Asset Management** again for more inspiration.



Source: https://www.wamasset.com/quiz

Figure 46

The user sees a challenge: “How Much Do You Know About Investment?” as the stimulus to enter contact details to learn their ‘Investment IQ’. Then follow a series of multiple choice questions (CFA / CFP standard), and the user receives a scoring grade.

The stimulation of dopamine is a differentiating factor in the client experience. The comparative difficulty of the questions raises the question in the user’s mind, “Am I as knowledgeable as I thought?” which is precisely the sort of question that might lead one to consider the services of a financial advisor.

A test of this kind furthermore provides the advisor (if so inclined) with an opportunity to set questions that help uncover client needs in advance, in order to send an automated yet tailored set of recommendations in the form of a premium gift.

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The power of gamification can also be leveraged as the financial advisory relationship progresses. As a topic, the application of gamification in commercial contexts is in its infancy, but it has so far provided its greatest social return in the area of savings and investments[42].

The use of gamification as a nudge to confirmation is an under-leveraged tool in the process of communicating the value of financial advice and securing a commitment on the part of the consumer.

[42] See the work of Shlomo Benartzi and Dan Ariely, who have taken pioneering steps in this space through contributing to the development of savings apps such as Acorns and Capital.

Final thoughts

Leading industry consultant Angie Herbers remarked at a forum this year that the pricing of financial advice can best be characterized as the 'Wild, Wild West'[43]. This is probably the most honest appraisal of how things stand, and reflects the fact that the financial advice industry is still in the process of coalescing into the financial advice profession.

Taking a step back from the frenetic detail, the efforts of the XY advisors are an important milestone in that they have proven the viability of a business model that serves the mass affluent client and HENRY segments.

One hopes that as the automated solution brigade continue to mature, the world of dirt-cheap robo-advice will develop into one that offers a broader range of services to mass market clients as well. There is no reason to suspect that $5 per month is an unreasonable fee even for a client with a low income. In the manic race to zero, hopefully someone will recall this fact.

Broadly speaking, the message underpinning this new model is one of hope. We can serve clients transparently and profitably without incurring conflicts of interest or resorting to artifice.

There is also a note of caution for the established players.

The authors would argue that it is the non-transparency of the AuM-based approach that has undergirded the stellar profit margins of today, which are still going strong. If the advice profession continues to evolve its approach to pricing models, and the use of explicit dollar-denominated fees grows, the transparency and comparability of fees will increase. If market forces were to affectionately spare the mainstream financial advice industry, this would be a first in the history of capitalism.

Either way, the consumer will benefit. Given the challenges faced by the younger generations of today, we applaud the emergence of this new approach, and hope that it continues to gain traction and support, ideally with the blessing and active participation of the current market incumbents. We have everything to lose by doing nothing, and nothing to lose by trying everything.

[43] For full text, visit: https://www.youtube.com/watch?v=_zXKtfKnfT8

How to approach the new pricing model

Pricing is not easy to get right, and transitioning from an existing model to a new one is possibly the hardest pricing maneuver of all.

For larger institutions in particular, the process of adding an offering for non-traditional clients is fraught with additional risks, as there are legacy attitudes, systems and pricing approaches to overcome. It may be advisable for such firms to partner with another firm or acquire such a firm as a separate business unit.

While the time scale may extend to five years, the basic drill is always the same.

Transparency

Define target client:

- The XY client landscape is more varied than the retiree landscape. Failure to define a niche produces a generic approach that will likely be unsatisfactory.
- For a large institution, one may have to consider having separate groups of advisors to target separate niches (HENRYs / Mass Affluent) and individual advisors to target different sub-niches (Dentists / Doctors).

Draft offering and pricing model:

- Effective 'niching' will enable you to define an offering that is distinct enough to attract, and tailored enough to serve the specific needs of the segment. The pricing model should reflect frequency, intensity, and required expertise of the underlying service model.
- This is particularly important for large institutions, as overlapping offerings will cannibalize one another.

Intelligence

Refine offering:

- The initial offering should be subjected to a rigorous battery of challenge from real-live targets. It should be based not on merely perceived needs, nor what the advisor wants to do. Given that XY Planning is at a young stage, client input is vital.
- For a large institution, it may be necessary to hold focus groups in the various sub-niches. This may also serve as a sense-check on whether it makes strategic sense to target these groups.

Finalize price points:

- One benefit of charging fixed dollar fees for clearly defined services is that price validation surveys are far easier to conduct. Business cases are easier to build, as fixed fees are a more predictable line item.
- Larger institutions should make use of all available pricing methodologies to ensure that the price points reflect willingness-to-pay. Under-charging is calamitous in this space, as fees must be raised explicitly (unlike in the AuM model were revenues increase naturally year-on-year).

Execution

Design presentment:

- The communication of the final fee can be easily mismanaged, and so substantial efforts must be made to ensure the salient value drivers are highlighted, and the fees are linked inextricably to this value.
- Larger institutions may wish to design 'digital finders' to re-direct clients who would be more appropriately served by other solutions within the bank (e.g. robo, standard High Net Worth services), to avoid confusion and cannibalization.

Re-calibrate communication channels:

- Many traditional wealth management models implicitly rely on old-fashioned business development processes (read 'referrals'). Modern consumers are oriented to seek validation online, and one must market this way.
- Larger institutions should consider how to target existing clients elsewhere in their customer base (related to existing clients, or existing clients of unrelated services). These represent low hanging fruit and should be mined before going above the line to the broader market.

Further reading

The authors would like to thank the redoubtable Michael Kitces for kindly reviewing this paper prior to launch. Many of the ideas have been copied, knowingly or unknowingly, from his blog. If you like your financial advice insights deep, plentiful and informed, please visit https://www.kitces.com/ and sign up for the newsletter and Financial Advisor Success podcast.

Here are some (of many) relevant articles from the Kitces Blog on the XY movement:

Monthly Retainer: https://www.kitces.com/blog/will-monthly-retainers-be-the-next-big-business-model-in-financial-planning/

XYPN launch announcement: https://www.kitces.com/blog/xy-planning-network-and-the-future-of-getting-paid-for-financial-planning/

Retainers Blue Ocean: https://www.kitces.com/blog/retainer-fees-vs-the-aum-model -in-financial-planning-red-ocean-differentiator-or-blue-ocean-strategy-opportunity/

AdvicePay: https://www.kitces.com/blog/advicepay-review-sec-custody-compliant-fee-for-service-financial-planning-payment-processor/

Monthly Service Calendar: https://www.kitces.com/sample-annual-client-service-calendar-gen-x-gen-y-monthly-retainer-clientele/

For the latest data on the XY Planning Network, please see the 2018 Benchmarking Study, based on a survey of its members, and containing 80 pages of dense statistics covering every KPI imaginable. Data sources are seldom this rich.

http://info.xyplanningnetwork.com/2018-benchmarking-study

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Simon-Kucher & Partners at a Glance

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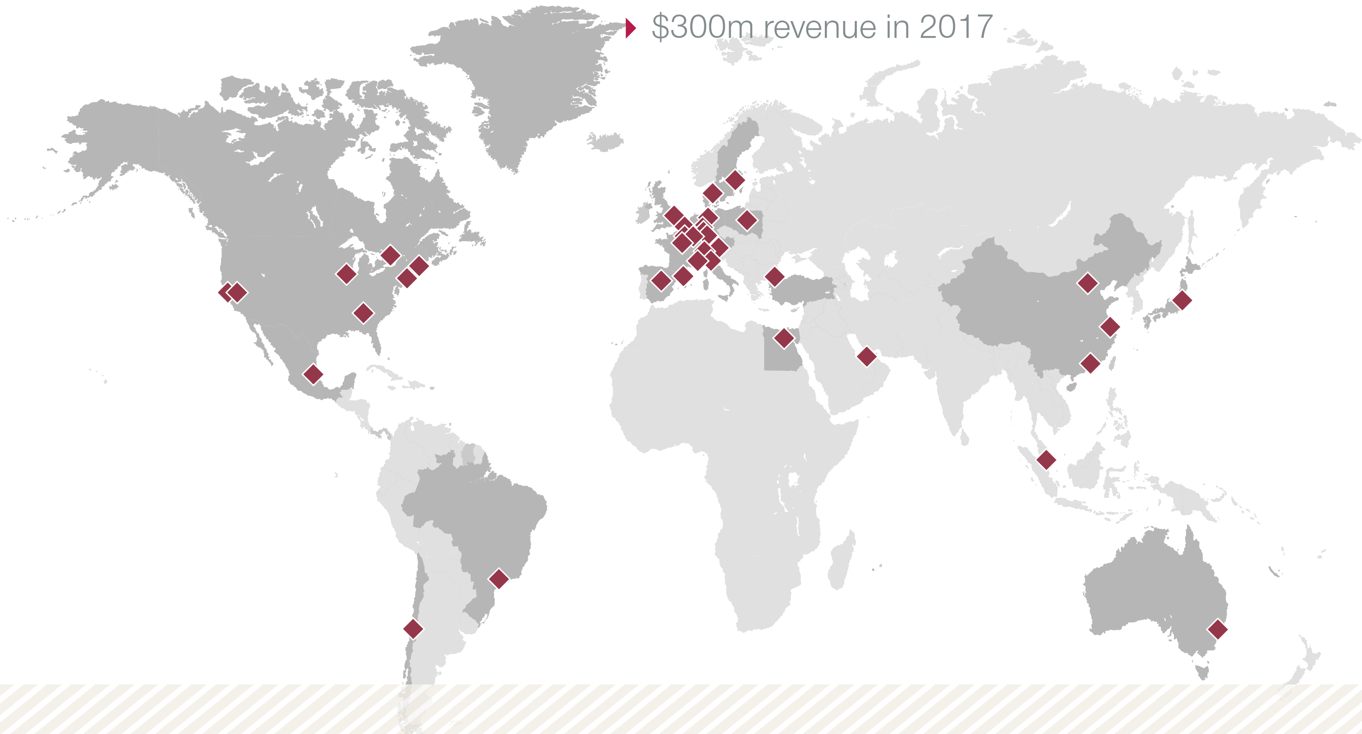

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- Pricing excellence
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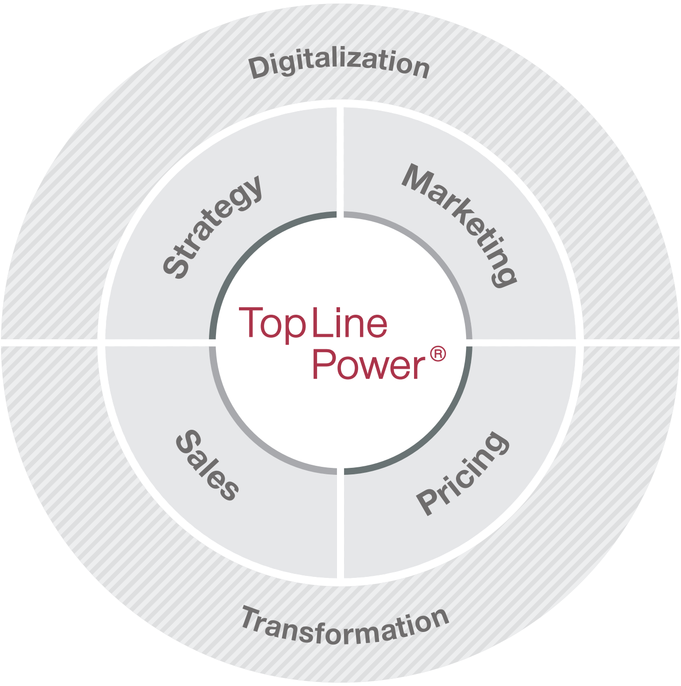
- Sales strategies and sales channel optimization



World leader in pricing

BusinessWeek

"World leader in giving advice to companies on how to price their products"

The Economist

"… the world's leading pricing consultancy …"

The Wall Street Journal

"Pricing strategy specialists"

Peter Drucker

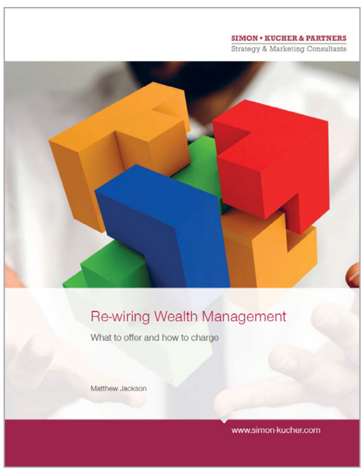
"… in pricing you offer something nobody else does"

Our publications on Pricing

Pricing for Growth in Wealth Management

Matthew Jackson, Director, **Wei Ke**, Partner
Simon-Kucher & Partners

- The wealth management industry is on the cusp of major change. How quickly it happens depends on those prepared to innovate. This has implications for the proposition and how it is structured, how we charge for value, and how we persuade clients that the value is worth the price.
- In this document, we cover all three topics using insights we have gained from other industries facing disruption, increased competition and pricing pressure.
- Given technology, regulation and changing client behavior, the need for innovation is likely to be ongoing. Those who move first are likely to remain ahead of the curve.



Re-wiring Wealth Management

Matthew Jackson
Director, Simon-Kucher & Partners

- One of the much needed changes for the wealth management profession is the introduction of choice for the client. Since not all clients want the same things, choice will help improve satisfaction, reach and also profitability.
- In this survey of over 1,000 wealth management clients, including a mix of traditional (55+) and non-traditional (XY) respondents, we asked clients what they would choose if they had the choice.
- As it turns out there is a clear opinion amongst respondents with respect to how they want wealth management delivered and how they would like to pay. This survey provides a solid case for the re-invention of the traditional model.

The Future of Fees

Matthew Jackson, Director, **Wei Ke**, Partner
Simon-Kucher & Partners

- Everyone talks about shaking up the fee structure and how the status quo can't go on forever. When it comes down to it, very few wealth managers have actually taken the leap.
- This report covers the fee models of eight advisers who have innovated on fees – using different metrics, different structures and new ways of communicating the value of their offering.
- In the second half of the report, we examine some of the common challenges holding back advisers from making fee changes, and how these can be overcome through careful planning.

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