

Simon-Kucher & Partners Report Explores Eight Innovative Fee Models for Wealth Management

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Press Contact

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New York, March 14, 2018 – Simon-Kucher & Partners, a global strategy and marketing consulting firm today announced the release of the report titled, “The Future of Fees: Real Life Pricing Innovations in Wealth Management.” The report examines eight new fee models for wealth management, and shares insights from the innovators about how they developed their model, the underpinning rationale, and the challenges they encountered during implementation.

We are at a stage of potential divergence in the wealth management industry. On one side stand those who innovate on how they price; and on other stand those who engage in a price war with tech-savvy firms who have figured out how to do it cheaper. The problems with the prevalent wealth management fee model of charging a recurring percentage of Assets under Management (AUM%) are manifold. The model, however, delivers cash and has served the profession well.

“The future of fees is not a shift from the traditional AUM to a new fee model,” said Wei Ke, Ph.D., Managing Partner in the global banking division at Simon-Kucher & Partners. “Rather, the future will be characterized by more diversity where a variety of fee structures will emerge to meet the needs of new and underserved client segments, and changing market conditions.”

The eight fee models detailed in the report include:

- **Charging by the Hour** – Mark Berg of Timothy Financial is a pioneer of the professional hourly fee model. He overcomes the potential pitfalls of this method with a combination of thoughtful segmentation and smart communication. He is also one of the rare planners who communicates fees prominently on the company website.
- **The 3-part Model** – Beth Jones of Third Eye associates has a different fee metric for each part of her value proposition (AUM% + Up-front + Hourly/Retainer), allowing clients to more clearly discern the value they are receiving, as well as tailor what they receive (and pay). The Up-front planned fee is also neatly graded by complexity (Bronze, Silver, Gold, Platinum) for profitability and again, clear value delineation.
- **Fixed-fee Only** – Carolyn McClanahan of Life Planning Partners broke away entirely from AUM-based fees and charges annual fixed dollar fees based on client complexity. Rather than asset size, for example, she considers factors that directly affect advisor workload, such as asset fragmentation. Her clients unfazed by the number of significant figures in her fees, and do not object to fee increases. Some even laugh.
- **The McDonald's Menu** – Bill Simonet of Simonet Financial came up with this fee structure while at the fast food chain, McDonald's with his children. He noticed they had no trouble selecting their 'meal bundles' and wondered if financial planning could not be made equally straightforward. His planning packages come with phone-plan style 'bundled hours', an ingenious way to monetize advice while incentivizing clients to make use of it, thus educating themselves on its value and becoming more loyal.
- **The 'Gen X' Model** – Jude Boudreaux of Upperline Financial build this fee model around his target client, the 'Gen X' client without large, liquid asset reserves. Realizing that such clients have a pressing need for financial advice, and have decent incomes with which to pay for it, he linked his advice fees to income and net worth. This created an affordable service for the client and a profitable business for himself. Crucially, by capturing clients before they become officially 'interesting' for his competitors, he is gaining a head start.
- **The Subscription Model** – Michael Solari of Solari Financial is a prime example of the emerging XYPN movement. He is set apart not just by his use of the subscription fee, but also the structure of his proposition, which allows clients to self-select according to preference and personality (delegator, validator, DIY). In an industry that typically loves to make decisions on behalf of its clients, this is a true anomaly and looks forward to a future that gives clients choice and enables a truly tailored service.
- **The Super-Retainer** – Steve Lockshin of AdvicePeriod has established a model that more or less obliterates the myth that charging dollar fees translates into small potatoes, and it is impossible to make big bucks without charging based on basis points and requiring hefty asset minimums. His six-figure super-retainers are ringing endorsements of the value he adds. By solving problems for his clients that mystify lawyers and accountants, he eschews asset management in favor of what he regards as the future of financial advice, which is precisely that – advice.
- **Modular AUM-based Pricing** -- Finally, Nick Revis of Elston Financial talks through a novel twist on the standard AUM model: modularizing the proposition by allowing clients to receive a stripped-down or full-service proposition. The price varies according to the level of service. This solves a long-standing issue of discounting serving as an inconsistent tool for mirroring client willingness-to-pay, and means that negotiation on price is automatically a conversation about value.

The report also addresses the inherent dangers of fee innovation. Innovation failure is a real risk, and unfortunately a likely scenario especially when innovation is approached in haste. There are essentially two ways to fail: one is to fail to gain enough customers as a result of over-pricing, while the other is underpricing which negatively impacts growth. None of these issues are insurmountable. The second section of the report addresses the pitfalls and objections to innovation.

“What is abundantly plain is that inaction is not a viable strategy,” said Matthew Jackson, Director in the global banking division at Simon-Kucher & Partners. “Rather than joining the price war, we recommend changing the game through fee innovation. We know from other industries that smart fee evolution benefits both the client and provider. The former benefits from better value, while the latter can enjoy more profitable, sustainable growth. What are we waiting for?”

The full report is available [here](#).

Simon-Kucher & Partners, Strategy & Marketing Consultants:

Simon-Kucher & Partners is a global consulting firm with more than 1,100 professionals in 34 offices worldwide focusing on TopLine Power®. Founded in 1985, the company has more than 30 years of experience providing strategy and marketing consulting and is regarded as the world's leading pricing advisor.

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