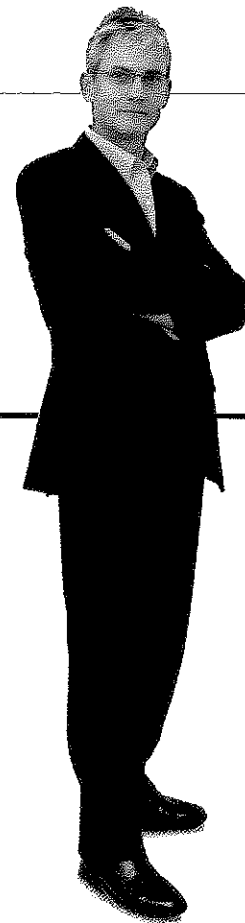


A welcome change

One firm's experiment with pricing based on quality of work performed is finding success providing clients with greater financial certainty in uncertain times. Jim Stackpool explains.



As owners of an advisory firm, Philip Smith and Brian Kennaugh from Hunter Financial Planning, which is licensed by Matrix Planning Solutions, have a lot to be proud of. A year ago, despite tight economic circumstances in their marketplace of Charlestown just south of Newcastle, they began a significant refurbishment of their 10-person advice business.

The results include a near 50 per cent growth in total revenue (to June 30, 2011) and a near doubling of net profit per owner. In the past year they have added two extra people and lifted productivity per team member by just over 20 per cent.

The crew at Hunter Financial has done well.

As with many change efforts, other strategic challenges were thrown in to make the year one not to forget in a hurry. Not surprisingly, the whole firm enjoyed a well-earned celebration up the coast late in September.

Smith and Kennaugh attribute their success to the performance of the team.

Because it has been difficult for Smith as senior adviser to let go of certain clients and to introduce new pricing techniques to existing investors he allowed others, especially up and coming planners Mitchell Donnelly and Michael Blyton, to take over advising several key clients.

Kennaugh's role as general manager kept the process under tight control, allowing everyone to focus on their tasks as he managed the priorities (both externally and internally) to ensure the right team members in the right positions.

The client service and support team members identified growth and work kept them informed about challenges and work flows thanks to staff members having regular "huddles" to share information about obstacles, wins and progress.

A number of unusual factors appear to have contributed to what was achieved by Hunter Financial. While most consumers and media consider advisory firms to be outlets for big product providers, the reality and mindsets within Hunter was different.

Smith and Kennaugh are determined to have an advice business where internal advisers want to build long-term careers. Therefore, their practices and philosophies must transcend short-term issues such as the Future of Financial Advice (FoFA) reforms, and reflect what they believe will be required for business prosperity and growth in a 10-year-plus time frame.

During this period, they envisage several more significant FoFA-like government interventions into the delivery of financial services and advice.

When FoFA (and before it the Ripoll report, Financial Services Reform, and the Wallis review) is placed into this longer term context, forward thinking and planning prepares the team for a future marketplace where there is greater transparency in advice fees, where there is increased competition for financial advice, and growing competition awareness of what represents value for money.

Also, when most media would consider a planner's proposition is to provide investors with investment advice, Hunter Financial's good 2010-11 year is built around a self-imposed re-engineering of the client proposition.

Though the new proposition work began before 2010-11, the business made great advances during this time thanks to its focus on the client value proposition.

Essentially, the planners at Hunter Financial believed that their former proposition was too product-dependent rather than advice-dependent. They wanted a proposition for their advice

clients that reflected the quality of their counsel rather than quantity of risk, finance or investment products provided.

They believed that, while crucial, their technical knowledge and qualifications by themselves could not be their stand-out differentiator for the long term. Well aware that there would always be more technically knowledgeable and qualified people than themselves, they wanted a value proposition that reinforced their expertise in areas where they could differentiate themselves. They chose a value proposition that centred on their ability to manage their clients to best achieve their financial outcomes – a client management expertise.

At a time when most Australians still think that planners provide investors with returns, their non-product proposition offering greater certainty in achieving financial outcomes would be deemed unusual.

Nevertheless, the proposition is proving to be highly acceptable to Hunter Financial's clients.

Another factor in their success was the introduction of a retainer based pricing system.

To remain an advice client at Hunter Financial, clients pay an annual retainer fee. They have determined job fees based upon an agreed scope

of work. If and when clients change scope, so too does their fee alter.

This is certainly an unusual way to charge for financial planning firms which are mostly wedded to fee-for-service models calculated using asset-based fees.

Smith and Kennaugh receive continuing grief from asset-based pricing advisers who decry their retainer based pricing, citing lower firm valuations than the asset-based multiples they say they enjoy.

They challenge the assertion, saying their ongoing retainers are more consistent than asset-based fees linked to uncontrollable markets. They say that their job fees aim to generate an ongoing profit per client per annum regardless of fluctuations of asset amount. As they don't predict markets why should they put their advice fees at risk (and why should they be entitled to market rises which they have no control over)?

Their dual-meeting philosophy means that no client meets just one adviser, their referrals per active client are steadily increasing, their client satisfaction ratings are improving and the number of advice niches the firm is cultivating is also increasing.

Which firm is more profitable? One linked to market performances? One linked to consistent profits from satisfied clients, referring more clients paying profitable job fees from the outset? Time will tell, but the unusual mixture of mindset, philosophies and results from Hunter Financial will, I believe, challenge the profitability and valuations models in our industry for some time to come.

But probably the most unusual feature of this firm is the fact that the younger adviser (Smith is 31 years old) is the long-standing planner commanding most of the revenue flows. The older

and more recent partner (Kennaugh is 57 years old) is playing a dual role of senior adviser and general manager.

It is usually the older and more established adviser running the firm who brings in a young manager to commercialise the operation, take ownership of the business plan's execution and drive change through the business.

What firms like Hunter Financial exemplify is the next generation of advisory firms. Planning businesses that do well in tight times because they are focused on a value proposition linked to the quality of their advice rather than the quantity of product sold.

Their focus is on building careers for everyone, not just propping up well-established advisers. Their experiment with pricing based on quality of work performed is providing clients with greater financial certainty in uncertain times.

How will Hunter Financial perform when the Australian sharemarket starts returning to last decade's growth? Time will tell.

Great firms like Hunter Financial are enjoying deserved rewards because they are taking bold leadership moves to secure their futures, the careers of their talented staff and the satisfaction of their ever increasing client base.

They are working hard every year to earn their ongoing fees from their clients.

Those businesses that are waiting for a recovery in investor sentiment, and world-wide growth should take the time to visit firms like Hunter. A few hours will convince them that even when markets eventually recover, the old days will never return as we knew them and what may seem unusual today will quickly become the norm in the delivery of financial advice. ☒

Jim Stackpool can be contacted on jjs@scat.com.au

Calendar of events

OCTOBER 17, 2011

CPA Congress, South Wharf, Melbourne
Convention & Exhibition Centre
Details: www.cpaaustralia.com.au

OCTOBER 20-21, 2011

Commodity Investment World
WatersEdge, Pier 1, Sydney
Details: www.terrapinn.com/2011/commodity-investment-world/

OCTOBER 23-25, 2011

Association of Financial Advisers National Conference 2011
RACV Royal Pines Resort
Gold Coast, Queensland
Details: www.afa.asn.au/conference/2011

NOVEMBER 15-16, 2011

Private Banking & Wealth Management Australia 2011
Swissotel, Sydney
Details: www.terrapinn.com/2011/private-banking-and-wealth-management/

NOVEMBER 16-18, 2011

Financial Planning Association 2011 National Conference Brisbane Convention & Exhibition Centre, South Brisbane
Details: www.fpaconference.com.au

NOVEMBER 21-22, 2011

Hedge Funds World Australia 2011
Swissotel, Sydney
Details: www.terrapinn.com/2011/hedge-funds-world-australia/