

# The next model



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nnumerable column inches have been devoted to the impact the RDR (or retail distribution implementation plan as it is now called, so game on) will have on the financial advice sector in the UK. Let's be honest, we left the FSA with few choices. We have, as an industry, not done nearly enough to address the issues we and the FSA have known about for years. Disclosure hasn't worked. According to the FSA "every disclosure initiative we have tried has underperformed".

In reality, the RDR will present few challenges to those who are open-minded and receptive to the notion that from a typical client's point of view, there has to be a more professional, more cost-effective, more impartial, more transparent way to access financial advice. For the less open-minded, die-hard transactional advisers, the run-up to December 31, 2012 will be extremely challenging.

The traditional business model will have to change but the reasons for this go way beyond the regulatory drivers such as RDR or even TCF.

The key drivers for change are commercial and the need for change is just as urgent for providers. Current levels of initial commission for most providers are simply uneconomical. Just look at NU's recent reductions and refusal to rule out further cuts...and they are not the only ones hurting. The payback periods are too long, the internal rates of return too low and the persistency levels diabolical. The private and institutional shareholders (not to mention foreign parents) of the listed life and pension providers want a return on their investment. Pressure from these quarters will intensify, particularly in the current climate.

Against this backdrop, changing your business model, quite simply, makes good business sense. As one adviser said to me recently: "Doing nothing is no longer an option."

Furthermore, if the industry is to have any hope of being seen as a trusted profession any time this millennium, the way advisers' work and are remunerated has to change.

Having accepted the compelling need to change as a result of regulatory, reputational and commercial pressures, the key question most advisers have is how? How do I go about changing my business model without suffering a

painful (and in the current environment) potentially terminal fall in revenue in the short term?

Over the next 12 months, we aim to help advisers through a series of regular articles, which can be collected to form a definitive transition guide. Readers will be shown how an ever-increasing number of advisers have started on the journey to a better model, developing long-term fee-based relationships with clients and increasing recurring revenue streams.

Each article will feature a real life case study from an adviser who has addressed the specific area discussed in the article, in which they will talk about the challenges they faced, how they overcame them and the impact the change has had on the business, staff and clients. These articles will provide practical ideas and help on how to approach changing your business model without starving to death in the meantime.

These articles will help you to overcome the common sticking points that our coalface consulting work tells us most, if not all, advisers face along the road. Among the key issues and questions we will address are:

- 1:** Segmenting your client bank - to help you to determine which clients are profitable, which aren't and the type of clients with whom you work best. Once you've done that you can focus all your marketing efforts on attracting profitable clients who match your ideal client profile.
- 2:** Creating a service standard for each segment - your clients need different things from you, they are not all the same. Furthermore, the service you provide to each client has to be done profitably, so the level of recurring income each client brings should determine the level of service you provide.
- 3:** Establishing your pricing strategy - you have to be able to see where you add value to clients. If you can't do this, how will your clients? If they don't see it, you won't get paid enough. This will help you to ensure you get paid appropriately for your time, expertise and value added.
- 4:** Developing a First Meeting Storyboard to articulate to clients who you are, what you do, how you do it, the results they can expect from your work together.
- 5:** Developing a first-class review service that allows you to deliver on your promises for ongoing service same time, every time, in a way which is simple, efficient and profitable.
- 6:** Converting existing clients. Once all the above are working well in your business, you can then approach your existing clients, who until now have been lead to believe that your service is "free", to get them to buy into your new client focused business methodology

The first article in the series appears next month.



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