

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Pricing Your Consulting Services

Barry K. Mendelson, CIMA

As the financial service business migrates revenues, profits and incentives towards the advisor-consultant model, competition is increasing exponentially. The pace of product development is so rapid that maintaining an awareness of both market alternatives and your competitive edge has become a business in itself. "Full service" investment consulting is evolving. The performance bar is being raised not only by advances in technology but also in the body of experience among practitioners. However, in the race to consult and get "fee-based," there is not much industry discourse on what these services are actually worth or how they should be priced.

Pricing is a function of the value the client perceives in the consultant's services. The consultant's power to command fees is dependent on a combination of his ability to respond to the client's needs as well as the client's ability to comparison-shop for alternatives in the marketplace. Institutions comparison-shop for consultants through a request for proposal. The fewer the alternatives available or the higher the consultant's level of investment counsel, the higher the prices can be set and the more resistant consultants can be to discounting.

However, like it or not, growing and retaining your asset base today means learning change. Becoming a "full service" advisor means creating value regardless of the financial services industry market segment they represent. Merely selling a stand-alone managed account product is already becoming a less powerful asset-gathering, fee-generating tool as evidenced by the maturing of the wrap fee business. It is not a question of what configuration of financial services the consultant offers, but a question of offering all of the financial services your client needs.

The focus on value creation is rapidly becoming linked not only to your ability to deliver comprehensive portfolio solutions that cut across market conditions, product lines, accounts and depository institution but involves your on-going ability to manage all the client's financial assets, whether private investor or fiduciary. For example, if you service high net worth investors, you will need expertise or access to expertise

in related disciplines like qualified plans, taxation, estate planning, retirement planning, college funding, trust services, etc. You will need to demonstrate to the client that you are managing a process for their entire portfolio. It is only through comprehensive investment process technology that the consultant can address the full range of values that the client deems important. Clearly, there is a positive correlation between the value you add and the fee you charge. If your value is

limited to enabling a client to participate in a mutual fund wrap program for a small portion of their assets, perhaps you are not adding much value.

Increasingly, you need to package and deliver your case management approach in easily consumable and personalized form. To create value and manage price, you will be challenged to become a master in the significance of each detail of your service platform. Merely showing up

for work will not do any longer. To succeed against competitors, particularly low cost competitors, you will need to appreciate the problem-solving power you possess for your consumer target market segments. This problem-solving skill will then need to be translated into practical, real-dollar benefits that your prospect or client can use to make informed value decisions. In a very real way, you will need to guide them to an understanding of your worth. You must quantify the broad range of values you address and manage in helping the clients achieve their goals and objectives. The good news is that your value as a diagnostician can never be commoditized. As a starting point for pricing your services, if you are a practitioner, your focus on pricing should begin with:

- Defining your value creation skills precisely within the context of your firm's program opportunities.
- Knowing your competitors, including low cost competitors.
- Being able to place a dollar value on the impact of your work in relationship to the overall objectives of the client.
- Being able to translate the above into a fee proposal.
- Learning – it's never too late to become more valuable to your clients.

... IN THE RACE TO CONSULT AND GET "FEE-BASED," THERE IS NOT MUCH INDUSTRY DISCOURSE ON WHAT THESE SERVICES ARE ACTUALLY WORTH OR HOW THEY SHOULD BE PRICED

If you run a consulting program for an organization, your pricing focus should be:

- Understanding your cost structure.
- Developing a value creation-marketing plan for your managed account business.
- Incorporating flexibility and choice for advisor and consumer.
- Installing information management and monitoring systems to observe trends and patterns for product development and continuing education input. ■

About the Author

Barry K. Mendelson, CIMA is founder of Mendelson Associates which provides advice and training to broker/dealer advisors and consultant practitioners. Mendelson Associates is located in suburban Chicago and can be reached at 630-587-6168 or by e-mail at insight@inil.com

Notes

SENIOR CONSULTANT

THE VOICE OF THE INVESTMENT MANAGEMENT CONSULTANT

James P. Owen
Co-Founder

Stephen C. Winks
Co-Founder, Publisher & Editor-in-Chief

Sydney LeBlanc
Consulting Editor

Mamie Woo McNeal
Production Editor

Eddie Bryant
Marketing Consultant



Advisory Board

Jerry Bott
Merrill Lynch

John Brock
Brock-Hazzard/First Union Securities

Dick Charlton
New England Pension Consultants

Bob Cluck
Canterbury Capital

Harold Evensky
Evensky Brown & Katz

Jeff Frum
Wells Fargo

Rich Gleason
Salomon Smith Barney

Kathleen E. Hegenbart
Salomon Smith Barney

Brian Hunter
Prudential Securities

Greg Hunter
Alex Brown

Bill Johnson
CapTrust

John Kelsey
Salomon Smith Barney

Keith Phillips
Morgan Stanley Dean Witter

Bob Rowe
Morgan Stanley Dean Witter

Dick Smith
Capstone Investment Group

Jim Yanni
Yanni Partners

SENIOR CONSULTANT

1457 Crystal Springs Lane
Richmond, Virginia 23231

Ph 804-795-1642 ■ Fax 804-795-7703

www.SrConsultant.com