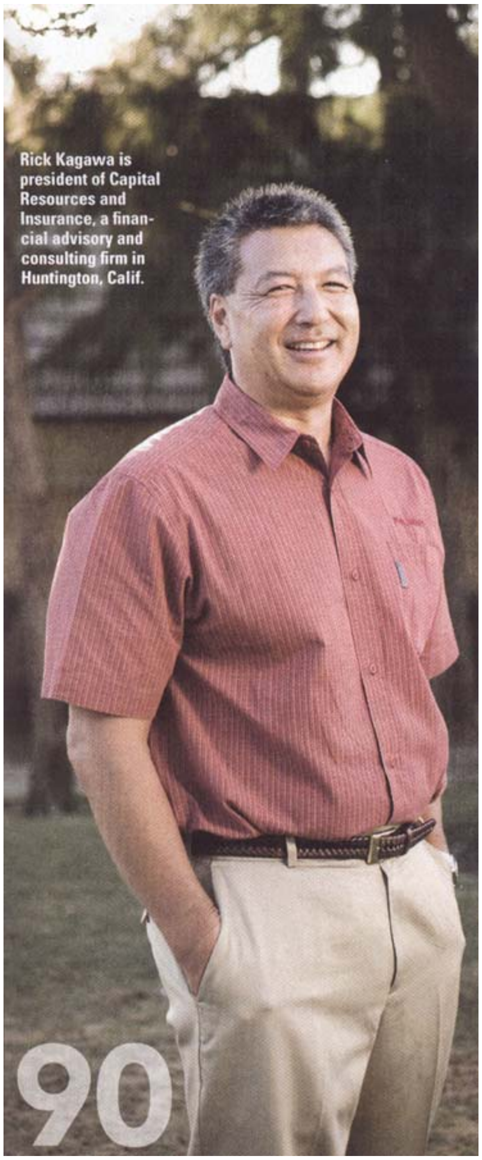
As seen in Financial Planning magazine, October 2008

The Big Ask

By Marie Swift



As the financial planning industry has evolved over the years, so have the relationships you enter into with clients. The way you conduct business has probably changed, and with it, perhaps without your even noticing, so has the way you engage new clients. How do you begin an advisory relationship that starts, not with a small transaction, but with asking someone to trust your leadership regarding his or her financial life? How do you ask for and win all of your clients' business—and teach others who may be partners, staff members or successors to do the same?

This question becomes vital as more financial advisors transit from transaction-based relationships to fees. You may think that this move is old hat, but that's not the case. According to Chip Roame, managing principal of Tiburon Strategic Advisors, "independent reps are not as fee-based as you might think. They talk endlessly regarding their move to fees, as do captive brokers and insurance agents, but in aggregate, these three groups have only between 15% and 20% of their clients' assets in fee-based accounts." To break it down further, Roame continues, "Independent reps specifically have 16% of their assets in fee accounts. They have 61% of their assets in commissionable mutual funds and/or annuities, so that's still their core offering." Even registered investment advisors-who are, theoretically, 100% fee-based-still report receiving 15% of their revenues from commissions, Roame says. "This means there are a couple thousand RIAs out there who still collect some trails and the like, so they are technically not yet fee-only, as are the 2,000 or so NAPFA members," he explains.

Today, many of the major broker-dealers have instituted coaching programs to help their reps transition to fees. In addition, as many advisors expand their businesses and start training successors, these new professionals need to learn to acquire clients. Although they may be well versed and academically credentialed in the techniques of planning, working with prospects and asking them to become clients may be uncomfortable. Building confidence in this area is crucial to their career development.

Chip Roame is Managing Principal of Tiburon Strategic Advisors, a leading research and consulting firm in the financial services industry

Whether on your own behalf or that of your staff, you are probably thinking a lot about the way you express your value to a client and request his or her business, and how this "ask" has to evolve. It's bigger, more global, than the transaction-based ask, and it's a decidedly softer sell. Arthur Cooper, CFP and founder of Irvine, Calif.-based Cooper McManus, says success is built not just on one ask but on a series of them.

Asking for a Fee

"The first ask in a successful advisory practice should be for a fee for service," Cooper says. Clients, he explains, are less resistant to the idea than are advisors. "Asking for a fee is a stumbling block in the advisor's mind," Cooper says. "Insecure advisors need to just get over that hurdle. They can watch more experienced advisors and sit in on their meetings; in return, seasoned advisors can sit in on theirs. In the end, if you do a good job for your clients, the fee is the fee: It's the cost of your expertise. And asking for the fee gets easier over time."

Rick Kagawa agrees. Kagawa has built a successful financial advisory and insurance consulting firm, Capital Resources and Insurance in Huntington, Calif., which serves mom-and-pop business owners, especially Japanese Americans who live and work in southern California. He's a CFP, CLU, ChFC

.and an LUTCF (Life Underwriter Training Council Fellow). He's also a top producer with Transamerica Advisors, an OSJ branch manager and an avid FPA member.

"Most of the advisors who come under my wing have a transaction-based past," Kagawa says. He offers his advisors language for changing their client relationships that goes like this: "I would like to be put on retainer to help you with your financial planning. I will also manage your portfolio and communicate with you regularly as part of that fee. This change is very important to you. What it does is put me on same side of the table as you.

"I will have a vested interest helping your money grow. If your money grows and my compensation is based on your account value, it is in my best interest to increase the size of your account. I am simply changing the way I get paid. Instead of getting paid commissions for a sale, I will get paid a fee for my service.

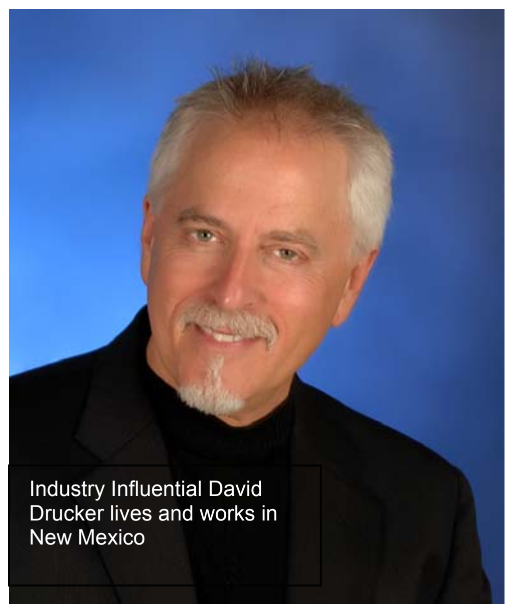
"Frankly, my business has grown so much that, under the sales-oriented model where I must always be looking for the next sale, I'm having trouble paying attention to my very best clients like you. I want to get paid for the service and value I bring, not for what I sell you today."

Interestingly, Cooper says that when advisors come to his firm from a sales organization, they have to backtrack and break u p old patterns of thinking. "Salespeople are trained to see sales opportunities in an almost silolike fashion," Cooper says. "We try to break that up, to help them see the bigger picture and how financial planning makes a difference." When they see planning properly, they make better recommendations, attract better clients and never really have to ask."

The real big ask, according to Cooper, is asking for a financial planning fee in addition to a money management fee. At a high level, separate fees are quite common. By putting a price tag on your financial planning service, you actually assign it a specific value. It's the old "you get what you pay for" idea.

Sell Service, not Product

David Drucker, a longtime financial planner and practice management guru, has always been a fee-for-service advisor, but he admits that in the early 1980s, he sold his financial plans as if they were a product. "I wrote my own spreadsheets and told people, 'we've got the best financial planning process in town. “Only engineers thought that was neat," Drucker chuckles. "Eventually I started talking more in terms of benefits to the client. I started charging a flat fee and encouraged clients to call me any time as part of my management fee." That's when his practice really took off.


Industry Influential David Drucker lives and works in New Mexico

Thomas "Tif" Joyce, president of Joyce Financial Management based in Sonoma County, Calif., doesn't just take any client. "It's important to know who the right clients are for you. Quality of clients is a big deal for me," he says. "It's a maturing process." Joyce, who has become well known in the industry due to his ongoing role leading the "Ask the Consumers" panel at Tiburon Strategic Advisor's biannual CEO Summits, was once a bank representative with Liberty Financial. "I had over 2,000 accounts. People would walk in the door and I'd try my best to figure out what they really needed, then I'd try and apply the solutions I had on hand. It's a flawed model."

Now that Joyce is an independent advisor, he really doesn't talk much about investments. Instead, he talks about planning. "I tell people I'm a retirement planner," he says. "They come in and we basically have a heart-to-heart talk about the true cost of living. Our goal is to make work optional. This means clients must have a reasonable balance between consumption and resources. I never ask for their business. We just talk and they eventually ask how they can become a client."

Asking the Right Questions

Joyce asks questions like, "How do you want to spend the rest of your life?" to find out what's really on a prospective client's mind. It always comes down to some sort of financial security.

"Inquiries just don't happen because the client wakes up one day and thinks, 'I need a financial plan,'" he says. "There is always a triggering event, a reason for calling. When they do call, I make sure all of my questions are about them. I don't try to tell them how qualified I am; I assume they think I'm competent, otherwise they wouldn't be calling. The whole decision-making process hinges on trust. I tell them if we work together I expect their cooperation; we are going to be climbing a mountain together."

Dan Gensler, CFP, RLP (Registered Life Planner) and president of The Gensler Group, a San Diego-based wealth management firm, approaches new clients from a comprehensive, life-planning perspective. "Understanding the heart's core desire is the first part of our process and then integrating the financial planning part of it," Gensler says. "As we share with clients who we are, what we do and how we do it, we're building trust as well as the expectation from the get-go that we're on a journey together. This is who we are and how we operate, so if you'd like to work with us, this is our process.

"Then again, we emphasize there isn't really any real push for them to move their investments to us. In some cases, people have long-standing relationships that they are very comfortable with-and we honor that-but they perhaps don't have the planning aspect, so that's where we fit in. While we're not really interested in piecemeal business, if they already have an insurance person or financial advisor in place, we'll do the financial life planning process and leave it at that. In some cases, we end up with their business anyway.

"Nevertheless," Gensler emphasizes, "there's no ulterior motive. Our process is fully articulated up front so that they are quite comfortable divulging all their information. That's really what they are coming to us for."

Internalize the Script

Early in my own career I served as sales assistant and communications specialist for the top producer with Financial Network. We trained reps in our branch to work with a blank sheet of paper, an internalized script and to be ready with a strong close. After a proper amount of get-acquainted conversation and fact finding, the rep recapped the problem and presented the solution-which, back then, was always a product. The final question was typically some variation of "Are you ready to move forward?" If the client kicked up dust, advisors were trained to "overcome their objections." If all else failed, they might say "Mr. and Mrs. Jones, what can I do to win your business today?"

Does this approach still work? "Sure a sales presentation like this can work," says Sammie Gatti, who is both a Dallas-based advisor with Navigation Financial and a registered representative with Securities America. "But you have to be careful not to slime people."

For example, it's important to respect people's time. Gatti cites an example of what to avoid: Recently a chiropractor marched her through a long, drawn-out process-including an educational video and a pitch for nutritional supplements-without checking in to see if she agreed or even had time for it all. "While I got the help I needed, the whole experience was off-putting," Gatti said. "This doctor didn't realize that people want to be a part of the decision-making process. I felt totally manipulated. As financial advisors, we need to guard against that."

Gatti honed her sales and communication skills for 18 years in the commercial real estate field before becoming a financial advisor in 1995. She suggests that prospective clients come in for a discovery and exploration meeting. If things go well and there's a right fit, Gatti explains her process, gets their buy-in and leads them down a path that includes data-gathering, goals and visioning, research, recommendations and plan agreement, followed by implementation and monitoring of the plan. Oh, and plenty of communication in and around all of these steps. Securing new business as a financial advisor is a daunting task. "It's all about building trust," Gatti says. "People come in and they are anxious. They're not even sure that anyone can help them. It's like they have a disease. As a confident practitioner, I need only to reassure them. 'Oh yeah, I've treated this condition many times before. Tell me more about what's bothering you.'"

Gatti adds: "I don't know how in the world a client could just come right in and relinquish all their retirement assets to you right off the bat. You've got to put them at ease by getting to know them and building trust. If you have a good reputation and a strong referral, you might be able to streamline the process, but building a relationship takes time."

Sammie Gatti is an advisor with Navigational Financial in Dallas and a registered representative with Securities America.

Use the Financial Planning Process

What if after a fair amount of conversation the client isn't ready to move forward-is there an ask? Almost every advisor told me this: The financial planning process in and of itself is a marvelous client engagement tool.

"If the process is working, you never really have to ask to manage the client's investments," Cooper says. "Things just move along in a logical order. Everyone knows where we're headed. There's a great deal of trust built along the way. Why would they go anywhere else?"

In fact, Cooper says, on more than one occasion clients have been ready to transfer their accounts before he was ready to take the assets. "One time a prospective client with $5 million at a wirehouse came in," Cooper recalls. "Our financial planning process took about two months. He kept trying to give us a portion of the assets and we kept telling him no, we needed to work through the process first. We kept telling him it's not about the money; it's about what he wanted the money to do over time. When we were finally ready to accept the transfer, he told us he would not have given us the whole amount if we hadn't held our ground and told him no in the beginning."

Gensler takes this a step further, saying, "When people go through the life planning process, they get so engaged that the relationship is not easily replaced. By and large, the relationships are much tighter just because of the closeness and bonding that happens through that process." The ultimate benefit is that clients are less prone to leaving and more prone to referring friends and family. "If someone leaves our firm, which is rare, they probably came to us just for investment performance," Gensler observes. "That's not the type of relationship we are looking for anyway."

Be Ready to Deliver at a High Level

According to Drucker, while working on a fee-for-service basis creates stronger bonds and improves trust, it also creates a greater degree of risk. The responsibility you take on is bigger, which is why the request for business feels so much weightier. There's much, much more to deliver. "Basically, the client has now hired a financial manager-not just a financial planner or a financial advisor," Drucker says.

Andrew Samalin, AIF, a fee-only advisor, also points out the risky side of staffing and building a fee-based advisory practice. "When you ask the client for a large degree of trust, telling them 'we want to handle this for you,' you had better fulfill on your promise. You need to look at both your ability and your capability," he says. "In my mind, 'the big ask' comes with a pretty important flip side—a big promise."

One of the more difficult challenges facing the sole practitioner and small planning firm today is the ability to execute the plans they develop. This leads to a risk that clients don't think about, although it is present every day: Are you delivering on the promise? "It's one thing to ask for business, it's another thing to deliver to an institutional standard," Samalin says. "With delivery comes expenses; with expenses, lower margins and less profits. Think about this as well: Are you being compensated for the risk of engaging in potential malpractice areas in which you lack a level of competence at least equal to your original skill set?"

Andrew Samalin, a fee-only advisor in New York, hosted a client-appreciation event on the floor of the New York Stock Exchange.

Samalin, who left the wirehouse world in 2006 to establish Westchester, N.Y.-based RIA Samalin Investment Council, manages over $100 million for his clients. As sole advisor and principal, these are the questions that keep him up at night. "The clients are ready to say yes to the big ask but we have a sacred commitment to deliver."

Samalin says that when you move from "vendor status" to "relationship status," client dynamics change in significant ways. "When you move to a consultative model, you might articulate your value proposition, but it's no longer a one-way sales pitch. It's relationship-based dialogue, a two-way exchange." If you're doing it right, people get—and stay—engaged.

"In the end, I never ask for business," Gatti says. "It's just bad form. My goal is to get the client to ask me 'what are the next steps-how do we get started?' That's when I know I've truly done my job and will have the opportunity to win over all of the client's assets over time."

Marie Swift is president of Kansas-based Impact Communications. She also serves as a coach for AdvisorMax.