

## Moving from the Boiler Room ... to the Living Room

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A recent *Research* magazine cover ("Fee-Based Business," February 2007) displayed a numerical reality check for the financial advice profession regarding the migration toward fee-based practices. The article stated that while 87 percent of advisors had begun to do fee-based business, only 16 percent of the assets they worked with were under a fee arrangement. These numbers tell a story of intention being waylaid by perception.

Herewith are a few personal observations of this industry phenomenon that I suspect have a bearing on the statistic, including:

- Transactional Traction: being stuck in the mode and mindset of transactional conversation and behavior.
- Cultural Confusion: being told to develop long-term relationships but being measured on short-term results. Firms must make up their minds on the instrument of choice for measuring results — a tachometer or a speedometer.
- The PERCEPT-SHUN Phenomenon: being rejected by clients on a value proposition because of previously sold and pre-cast perceptions in the mind of the client.

Because this "percept-shun" phenomenon is much more prevalent than we might suspect, and pivotal to overcome in order to successfully transition to a fee-based relationship with clients, I offer the following psychological note for consideration.

Today's client is a wary client. They are wary because they are weary — weary of past experience and wary because of exposure to stories that do not flatter the financial profession. Many of today's clients are suffering from PTSS (Post Traumatic Sales Syndrome), which is where they or someone close to them has had a traumatic financial violation. This condition can only be cured with unadulterated integrity. Others you meet are suffering from SFS (sales fatigue syndrome), which is where they are simply weary of being sold — period. Everywhere they turn they encounter another thinly veiled sales pitch. These conditions can only be cured with absolute transparency on the part of the advisor.

Many of these consumers are wary because they were sold on the basis of transactions and now they are being told that transactional approaches are not in their best interest.

The transactional, commission-based approach on which the majority of advisors founded their business will always carry, even if very faintly, the scent of the boiler room for most consumers, if only because the form of the advisor's compensation (commissions) served the ill-intentioned as much or more as the well-intentioned.

Never mind if you never once entered the boiler room associated with the dank and murky basement of the industry. The hint of suspicion abides in the olfactory mind-space of today's circumspect client. It's guilt by association (and as an advisor you are associated). You must prove yourself inculpable and distinct from those on Wall Street who are culpable.

### Handcuffed By The Past

Every industry must deal with this at one time or another. The solid center of any industry suffers insinuation on account of the rogue and raffish behavior on the fringes. Such insinuation is all the more difficult to deal with for an

industry and individuals who are in the midst of transition. And, in a paradoxical twist, one of the paramount reasons the industry is in transition is because of associative guilt. Aside from the tainting of the transactional approach, another factor is driving the migration of the industry toward fee-based management — the erosion of commissions and the need to survive by annuitizing one's business.

The 'percept-shun' problem effects many more advisors than those migrating from transactions to the fee-based arena. It hinders any professional who is attempting to sell a superior value (and higher price) to clients who may have entered the relationship on another basis or value sold.

Do you find yourself arm-wrestling psychologically with clients over the value-proposition you previously sold? Are you moving from a transaction-based to a fee-based business and struggling to justify the new paradigm? Are you in a fee-based business and struggling to justify the recurrence of fees because the client fails to appreciate a value beyond the asset-management process?

The following story illustrates how a previously sold value proposition can haunt you.

Dave, a successful advisor and admirable gentleman called me one morning and lamented, "I am so tired of these year-end meetings."

"Tell me about it." I answered.

"Well it's the same conversation over and over," he explained. "How did we do against this index? How did we do against this fund? How did we do against our neighbor who brags (and lies)? This conversation gets so old, year after year and client after client. It's like financial *Groundhog Day* (alluding to the Bill Murray film about a weatherman reliving the same day over and over again.)"

"Dave," I replied, "I have only one question for you. Who got this conversation started in the first place?"

"Ouch!" he replied.

"What has happened to you," I offered, "is that you have fallen victim to the value proposition you sold in the first place. 'I can do better than XYZ.' Now you're living with the reality of this value proposition."

"This particular value proposition, by the way, is unsustainable over time and ultimately causes major stress in every relationship when the tide turns against you."

I offered an analogy to this advisor by telling him I was thinking of starting a business called Mitch Anthony's Weather Advisory Outlook. 'Bring me your calendar for the next year and circle the dates where you want to have an outing, go to a ballgame, picnic, etc., and I will do two things:

1. Look at historical weather records going back to 1920 and see how the weather performed on those dates, and;
2. Analyze your dates with a climatologic probability analysis program going forward.

After these analyses I will tell whether or not it should be sunny or rainy on the dates you chose.

The silence I heard on the other end of the phone indicated that Dave thought the light on my front porch was flickering. "I take it that you're not interested in my business proposition?" I inquired.

"I don't think so," he answered.

"Can you tell me what the difference is between my value proposition and yours?" I asked. "They are both predicated on factors we ultimately have no control over: the climate and the markets. Offering a value proposition around

factors you cannot control is at the very least a formula for stress and frustration, and at worst a predictor of burnout and insanity.”

Many advisors are laboring under the yoke of an unsustainable value proposition:

- If you cannot control the outcome it is unsustainable.
- If you cannot largely control client satisfaction it is unsustainable.
- If the value of your offering continues to erode and the price being paid continues to fall, it is unsustainable.
- If your business model asks more and more of you and pays you less and less, it is unsustainable.
- If your business continues to threaten the balance in your life and zaps your enthusiasm for what you do best, it is unsustainable.

### **What Can Brown Do For You?**

I had the pleasure of interviewing the gentleman who was responsible for transforming UPS from a package delivery company into a world-class logistics consulting firm. I suspected that there might be a lesson here for those in transit from transactions toward an advisory fee-based model.

This gentleman said that one day UPS awoke to the realization that they were sitting on a goldmine of intellectual property as a result of delivering millions of packages every day to tens of thousands of clients and thousands of outposts through various transportation systems. Who else had such a cat-bird seat and global knowledge of moving items from point A to point Z?

With this epiphany driving them, they began to package and re-brand themselves as logistics *consultants*. They began to offer clients the opportunity to off-load all their logistics hassles and by the way, if you like how we manage your logistics, we can deliver the packages as well. This is the sort of value proposition that transports a firm from a transactional ‘me too’ player to a fee-based industry leader. UPS capitalized on the intellectual property that had always been at their disposal (how logistics work and intimate knowledge of certain clients’ issues) and leveraged it to become exponentially more important in the life and well-being of their clients.

I believe the most sustainable and controllable value proposition you have is based primarily on capitalizing on your global knowledge of helping other clients (this is the nucleus of ‘advice’) and building a quality relationship and intimate understanding of what matters most to your clients with respect to their money. This global knowledge and local understanding deserves to be the centerpiece in your value proposition. The processes you employ take on a secondary role and the products a tertiary role in helping your clients. I call this evolution in the value proposition *moving from ROI to ROL*, or *Return on Investment to Return on Life*.

### **Redefining You**

You built your house on the foundation of the value proposition you originally sold. Will it support a new structure, a new way of doing business? Or have you fallen victim to the perception you originally created in your client’s mind?

Another question I must ask, having engaged in the value proposition question with scores of financially successful advisors, all of whom are feeling burned out or frustrated with clients not appreciating the value they bring, is “How do you perceive yourself?”

You will not sell a higher value proposition to your clients until you wholeheartedly embrace and integrate that self-same value prop firmly within yourself. And, this is the central point in your future value proposition: You must place your human value above all others in the way you present yourself.

I often ask advisors, “What are you going to do for me? What is it I’m paying for?” One advisor told me, “Mitch, I’m really good with numbers.” I pulled a calculator out and said, ‘so is this, but I’m not going to pay it 1 percent; I just put in a couple of AA batteries now and then.” If the value you sell can be replicated by a machine or software then you are not selling the more powerful human value that you possess.

Consider the following values that get sold in a relationship for fees in descending order of importance and value:

- The Personal Aspect: you as an individual, your level of concern, your philosophy, your uniqueness and professionalism.
- The Strategic Aspect: your ability to think conceptually and contextually, ascertain meaning, and create a strategy unique to the individual; based largely on intuitive capabilities.
- The Procedural Aspect: the processes you employ in managing assets, risks, etc., in the planning process.
- The Tactical Aspect: the products and services you utilize in the animation of the plan.

One of the common frustrations I see with high-end advisors (by 'high-end' I mean both their skill level and assets they manage) is that they know they are delivering extreme levels of personal and strategic value but their fees are tethered to the lower value of the procedural aspect (AUM). This is a complex problem that begins with not knowing how to sell the personal and strategic aspects and ends with possessing the confidence to charge desirable clients and reassign or discharge those who do not fit the new paradigm and who do not understand these higher values.

When making decisions around who you will and won't work with I think one should commence the process from the heart and not the wallet. That is, when deciding who fits and who doesn't, the central question is not, 'how much do I want to make?' but "who and what do I care most about?" Once a person fits that profile they are a candidate. If they can pay what you decide to charge they are a client. If they have been a client a long time and you care about them enough to not re-assign or discharge them then you make a compromise in their case. But you do not make this compromise in every case or you end up in a business that runs you. You are then engaging in 'practicide'. This sort of segregation process cannot begin in earnest until one answers the BIG question.

The million dollar question (that has answers as unique as you are) is... "How do I describe my personal value?" Before you can get paid what you are worth you must be able to describe your worth in a compelling manner. Pricing is a question of value long before it is a question of cost.

### **Conversations About Value**

What is your transcendent personal value? What is it about you that I cannot expect to receive elsewhere? Describe for me how a relationship with you around my money is fulfilling enough to keep me from shopping the 'services' elsewhere.

One planner told me that he explains his personal value this way:

"I'm like your financial best-man. I'm here to help remind you of the promises you have made to yourself and to those you love, and it takes good advice and financial discipline to see those promises through."

Another advisor explains her value this way:

"I want to be your CFO — Chief Financial Organizer. Most people have financial lives that are scattered here and there, like puzzle pieces, and it's hard to see the big picture of where you are at and how far along you are without seeing all the pieces together. To get to this place we need to look at every piece, decide what to keep, what to throw away and what we need to take time to think about."

And another shared this description of personal value:

"In a previous life I was a coach. As a coach my greatest desire was to see my players grow, both in their game and as human beings. To help them I had to be good at two things, 1) the x's and the o's — I had to think strategically and creatively to make sure we got the wins we needed, and 2) I needed to know how to motivate each player to bring their best game out — one part information and one part inspiration. I find this approach helps my financial clients the same way it helped my players."

If you are a prospect and you hear these personal value descriptions, and they resonate with you, it is highly unlikely

that the next words out of your mouth are going to be, 'How does your fee compare to \_\_\_\_\_?' The price people will pay in an advice industry hinges on the perception of value. When you are engaging clients in this conversation you had better not lose sight of the value of perceptions.

If you are taking the steps to build a practice that is fee-based, you need to communicate your value well enough that clients are no longer fee-biased. When clients understand the personal and strategic value they will encounter when taking you on as their financial partner that bias will disappear.

My sister-in-law recently thanked me for referring my personal advisor to her and my brother. Her choice of language was noteworthy: "We are so glad to have him in our life."

She didn't say she thought he would be a great asset manager, or that he seemed 'so professional,' or that his fees were fair. She apprehended the transcending value because he communicated it so well, that this was about their life, his integrity and about what he could do to help move their financial life forward. Because his business is conducted in the living room they haven't the least concern about how he gets paid.

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