
Making somebody else's hindsight

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Making somebody else's hindsight your foresight

PAUL RESNIK and DAN RATNER share their different industry experiences to present this insight into the future of financial planning.

The global financial crisis is proving to be a tipping point for many 'delegator investors' who have been the lifeblood of the planning industry. Their advisers have in many cases not protected them from portfolio volatility as they would have hoped.

From now on, many delegators are likely to take a greater interest in, and responsibility for, their financial planning and investment decisions. Planners and planning businesses will need to adapt.

Of course, this is not the first time changes to client behaviour have forced service suppliers to rethink their role and value to clients.

Over the past eight years the travel industry has had to deal with similar challenges.

To remain relevant, travel agents have had to fundamentally redefine themselves and their value proposition.

And, of course, the travel industry shares some interesting parallels to financial planning.

Travel: the move to fee-for-service

Since 2001, travel agency businesses have had to contend with two major trends impacting their businesses:

- the radical reduction of commission structures from product providers; and
- the advent of do-it-yourself (DIY) travel via online booking engines.

The two trends were not mutually exclusive, as the availability of DIY technology and online booking engines were the primary causes of commissions to travel agents being reduced.

It also occurred at a time of significant economic difficulty: the fallout from the September 11, 2001, attacks on New York and the collapse of Ansett and its significant subsidiary travel agency businesses, including Traveland, Jetset and Ansett Holidays. Many clients lost both money and confidence in their agents.

Over the past eight years travel agencies have evolved their business models away from commissions for transactions towards fees for services.

Was their reconstruction successful?

A recent article in *The Sydney Morning Herald* found that while online booking technology has seen massive growth, the industry continues to support around 3,000 travel agencies nationally.

It seems 'the death of the travel agent has been greatly exaggerated', as people embrace them for their experience and knowledge.

Recent research by Roy Morgan found that "while many people research travel online, the majority still prefer to book with a travel agent".

The report also found that most people prefer to make their holiday bookings in person rather than online or via the telephone.

A 2008 IBISworld report identified technological change as the major driving force behind the overall growth of the travel industry. It predicts agencies will attain revenue growth in 2009 from charging service fees to clients in the preparation of quotes and itineraries.

What did they do?

The most successful operators redefined their value proposition to clients and, in the process, identified who their best clients were. They understood that it is the value of their experience and knowledge that clients are willing to pay for.

Similarities go beyond organisational structure

The travel industry has relationships with travel groups and individual travel agencies that are not altogether different to the distribution roles played by dealer groups and financial planning firms.

In general, there are two types of travel groups, each with their own challenges:

- wholly owned travel groups like Flight Centre (including online and direct travel groups) that have a central management team controlling the brand, message, compliance and calendar of market offers; and
- franchised travel groups like Jetset and Travelworld that provide individual travel agents with product buying power, a headline brand, infrastructure and services. The

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franchisee controls their business within the framework of a franchise agreement.

For both travel group types, it is difficult to control the compliance of the agency under the licence. The travel group continually needs to monitor both this and the loyalty of its agency membership base.

In financial services, the need to continually monitor loyalty and compliance is even more acute because of the strict compliance issues.

Many financial advisers in pain

The most recent Wealth Insights Adviser Sentiment report released in March found a world of planners who have acquired no new clients recently, have little new business prospects, are writing fewer Statements of Advice, have minimal conversion success from their marketing efforts, are being forced to live off reduced trails and, ultimately, are delivering endless bad news to their clients.

Similar to the travel industry post 9/11, there is a need to recognise the moment of inflection. Clients have been burnt, they have lost money and many feel they are in crisis.

This is a tipping point.

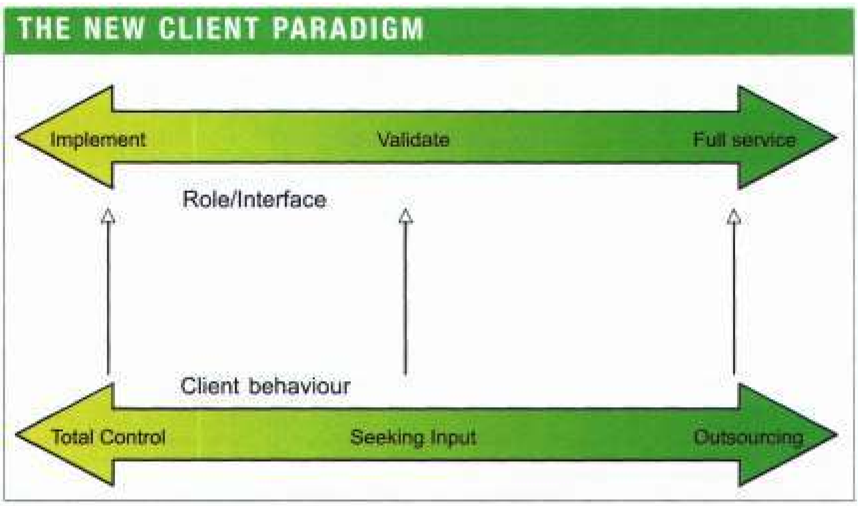
Behaviour invariably changes after suffering gravel rash.

The experience of the travel industry suggests clients will take more control, make the effort to become better educated and get more involved in the financial planning and portfolio construction process.

This fundamental change will impact on the role of the adviser. Firms will need to rethink who their clients are and what their clients expect from them. Clients will become more involved in their financial plan and portfolio construction.

Drawing this out to its natural conclusion suggests a continuum, from clients who are totally confident with their own competencies to those looking to outsource to an expert.

This changed behaviour will impact the



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success of the financial adviser. As in travel, many will 'construct' their plans before taking them to an agent for ratification, validation or implementation.

The inability to meet those expectations will inevitably lead to failure to engage meaningfully in meeting client needs.

Clients are already taking more control of their financial plans.

An excerpt from the Investment Trends 2008 Adviser Product Needs Report indicated that many advisers are finding themselves pandering to client fears and taking orders from their clients.

Given the crisis, many planners seem willing to make requested changes to their clients' portfolios rather than risk losing the client altogether.

This is clearly an unsustainable and, hopefully, short lived state of affairs. Planners with long-term business and professional aspirations must build towards a position where clients value and are willing to pay for advice as part of their planning and portfolio construction process.

There is much for planners to do

Change of behaviour is only one dimension of the planning challenge.

The global financial crisis has also shifted clients' perceptions of wealth. This is attitudinal and will be discussed in a later article.

Another dimension also needing to be con-

sidered is the Government legislating reduced commissions.

Phillip Hudson in *The Sydney Morning Herald* reported that Federal Government ministers have already made an in-principle decision to impose a ban on commissions on retail superannuation funds.

Regardless of the arguments of the financial planning industry, the outcome will no doubt be the same.

The Government is likely to legislate in what it sees are the best interests of its constituency, consumers.

Much can be learnt from the experience of travel; although the product suppliers controlled the change, here the result is similar, but the process more brutal.

There are three distinct changes influencing the financial planning business model and value proposition:

1. clients taking on more interest in their financial plan;

2. the shifting perceptions of wealth impacting on the context and content of the plan; and

3. the abolition of, at least, some commissions.

Now even more pertinent is the question: what sort of business model to build towards?

Will it be a high volume order taker, information and strategy validator, low volume financial advice expert, or a mixture of the three?

The answer is as much founded in a planner's personal preference as it is in understanding the unique characteristics of existing and preferred clients.

It will require many financial planning firms to rethink who their clients are, what client segments offer the best returns and then redeveloping their value proposition, their service offering and their pricing if they wish to remain relevant.

Dan Ratner is the managing director of Linchpin Research. In 2001 he was the national manager, online services, at Ansett/Traveland and experiencing the changes examined in the article first-hand, both from the point of view of DIY technology as well as from its impact on competing business channels. Since then he has been involved in developing strategy for the wealth management industry through the analysis of customer behaviour.
Paul Resnik is an industry commentator and consultant.

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Case Study: Successfully realigning a travel business within a radically changed market environment

In 2001, a high quality local travel business suffering from reduced earnings after the elimination of commissions from product providers and the uptake of DIY travel reviewed and changed its business model.

The business recognised the changes in client behaviour and realigned its business to meet those needs.

It eliminated from its thinking the limiting concept that the economy is tanking and the services of the travel agent are no longer valued and replaced it with a new mantra, 'Our ideal clients value our services and are willing to pay for the ease, knowledge and expertise that we provide'. They reviewed client categories and attendant profitability and created strategies to harvest their ideal clients and target more of the same.

Since 2001 this agency has enjoyed increasing revenues.