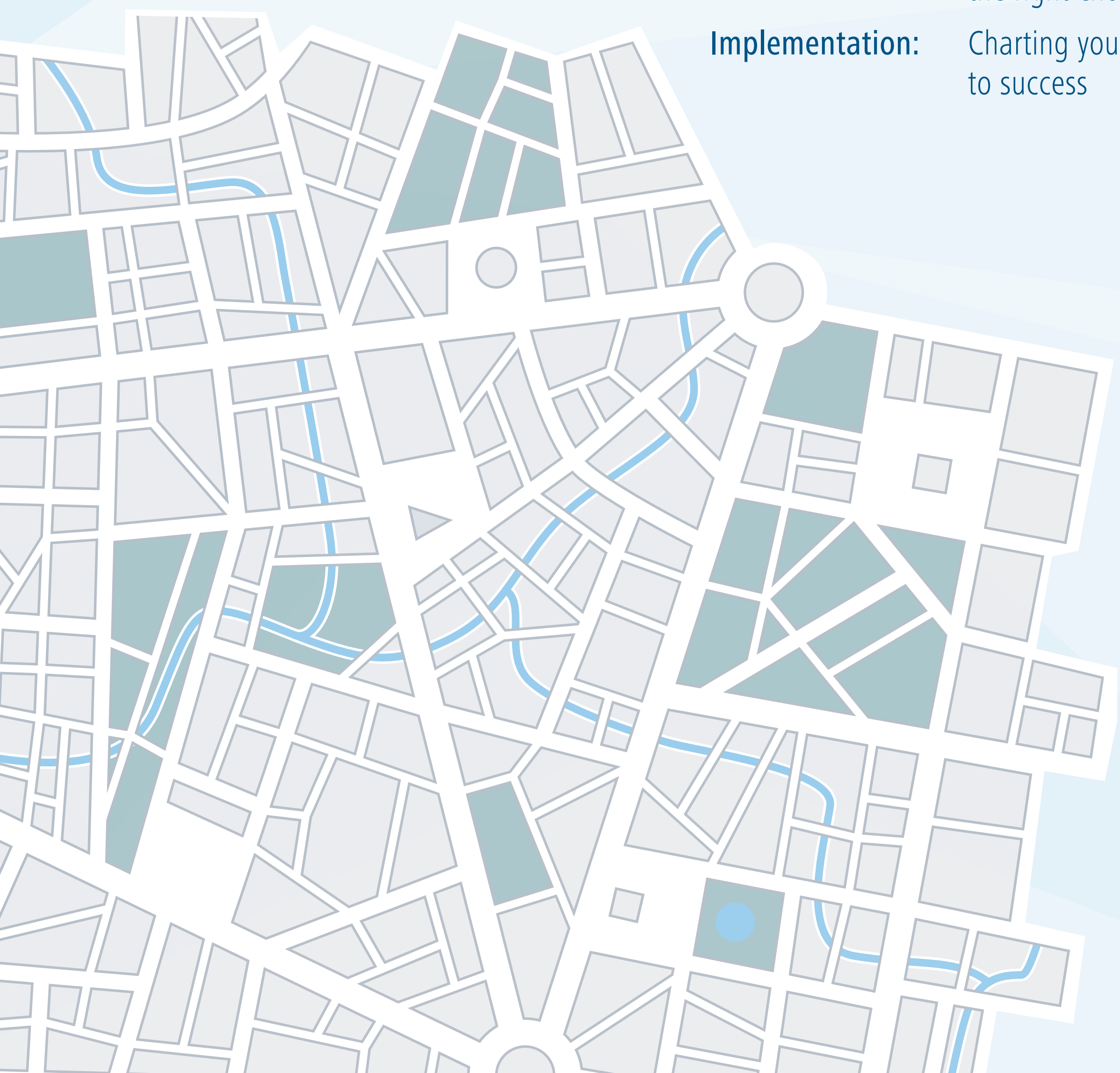
MACKENZIE Investments

CONFIDENCE IN A CHANGING WORLD

Your fee-based practice roadmap

Self-assessment: Guideposts to making the right choice

Implementation: Charting your path to success



Larry Distillio, the author of this guide, is Assistant Vice-President, Practice Management at Mackenzie Investments. With over two decades experience in the financial services industry, he has worked closely with hundreds of advisors in various distribution channels across Canada. In addition to coaching and consulting, he is invited regularly as a keynote speaker at financial dealer conferences, Mackenzie professional development days and advisor workshops. He continues to author many strategic and timely articles to the financial advisor audience aiming to raise the bar of business performance and client service.

Past articles

The client whisperer

The 5 C's: An essential quarterly checklist to keep your business on track

Training clients to keep you informed of life-changing events

Making centres of influence work for you

Grow your business with a client advisory council

How to use client testimonials effectively

You are what they think you are: Active steps to reinforce your brand

Mastering your referral process

Strategies for being the family's financial resource

Creating a mental imprint

The power of story

Revisiting niche marketing

Introduction: The buzz around fee-based

"Will Canada ban commissions?" reads the headline in *Investment Executive*. "Making the move to a fee model," reads another. Why is there so much buzz about fee-based, and how should you respond?

The answer to the first question can be summed up in a word: regulation. The Canadian Securities Administrators are evaluating a number of proposals and implementing changes that directly impact financial advisors. Fiduciary duty is under discussion. With CRM 2, "Point-of-Sale" and mutual fund cost structure discussions, there is greater awareness of costs, and an emphasis on transparency. As a result, advisors are thinking about their practice models. What does the future hold for the transaction-based business?

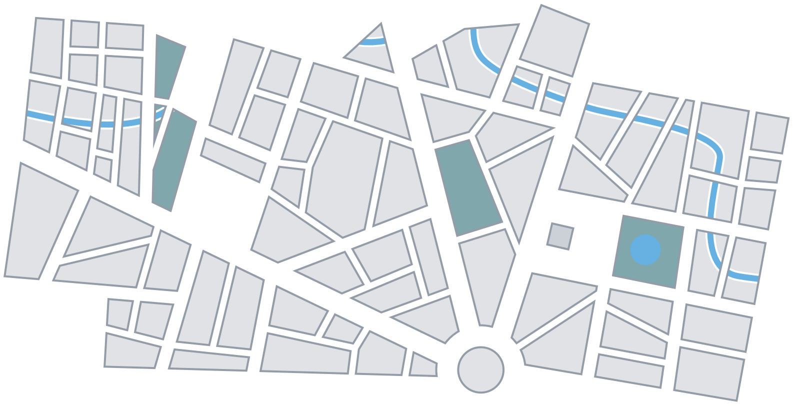
The second question, "How should you respond?" is more complicated. And that's why we've produced the fee-based practice roadmap, with numerous worksheets, questionnaires and tips. Part 1 helps you evaluate your current practice to see if fee-based is suitable for you. Part 2 outlines the essential implementation strategies to ensure your transition is a successful one.

Is a transition to a fee-based practice an option for you? Go through the exercises in this guide and find out. Ultimately, it is your input that will decide.

Next Exit

Self-assessment

Guideposts to making the right choice



Before you plan your journey...

Before even starting the process of researching and evaluating a transition to fee-based approach, one should start by looking at different types:

Fee-for-service (fee only): The fee is paid (hourly, flat fee, retainer) directly by the client for services received.

Fee-based accounts: The fee paid (directly by the client or deducted from assets) is a percentage of assets under management.

Fee-based products: The fee is embedded as part of a product.

Fee and/or commission blend: Advisor is not 100% pure commission or fees, but a blend. For example, a fee is charged for a financial plan separately from earning a commission on the recommendation of a product.

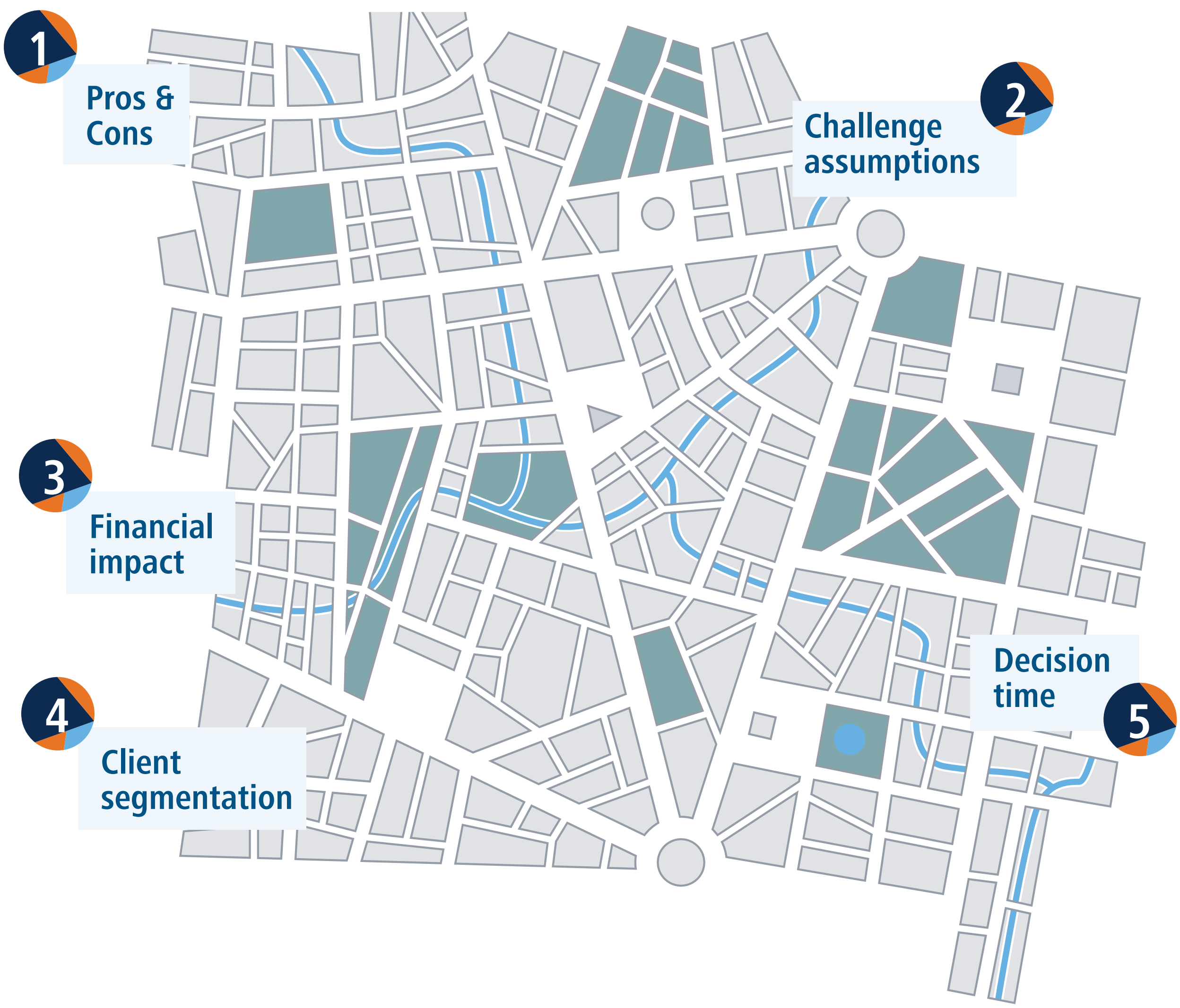
Welcome to

Self-assessment

5 sections

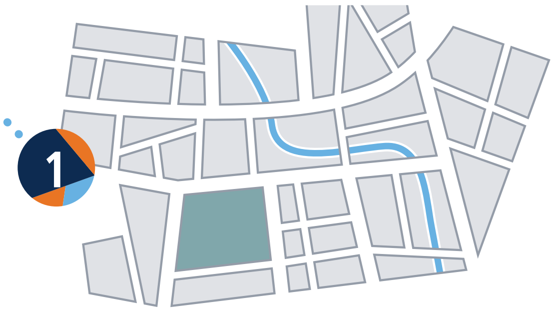
Self- and market evaluation: Is fee-based right for you and your clients?

You will find that this kit follows a consultation model, where the consultant challenges you to make lists and answer questions in order to arrive at your own conclusions. It's a lot of work, but the goal is for you to achieve a high level of organization and preparedness for major change. To help you decide whether you should make the transition to fee-based, the following exercises are necessary:



Section 1: Pros & Cons

Consider the advantages and disadvantages of fee-based practice



Advisors who have switched to fee-based report that it creates a higher value-add perception among high net worth clients. On the other hand, some of the transition difficulties, such as an initial period of reduced revenue, are widely mentioned. Read through the points below.

General advantages and disadvantages of transitioning to a fee-based approach

Advantages

Profitability/Growth

- Long-term increase in income.
- Current clients are generally more profitable than new clients.
- Increased value of your business.
- Stay competitive with industry trends.
- Attract higher quality clients. The average fee-based account is 46% larger than the average transactional account ($256,400 vs. $175,200).

Stability

- Reduce uncertainties and fluctuations in revenue that can be part of a transaction-based approach.
- Leverage and delegate investment management.

Predictability

- Transparency may reduce potential for conflict of interest.
- Advisors with a fee-based approach tend to have clearer value propositions and service models.
- You are paid for your advice and time and not for transactions.
- Shifts the focus from products to services.

Client loyalty

- Your clients are asking for it. Align your approach with your client requests.
- Perceived by mass affluent and high net worth clients as more professional. Clients view you as a consultant.
- Focus is on the relationship and service, which increases client loyalty and generates more assets.
- Client is not out-of-pocket as fees are typically deducted from account assets.

Disadvantages

Loss

- May eliminate smaller clients.
- Short-term reduction in revenue during transition.
- Business AUM too low to produce a revenue target.

Other challenges

- Perceived conflict of interest of advisor bias to manage assets as opposed to encouraging debt repayment.
- Managing change and investment of time.
- Lack of resources and client capacity to support a model that focuses on client relationships and the need to show value.

Self-assessment

Below is a questionnaire that allows you to really consider your own views and values as well as those of your clients, with respect to a fee-based practice. Some will state that a fee is a form of compensation that encourages a relationship while a commission encourages a transaction. Before you go through the questionnaire, keep the following two questions in mind:

- How do my clients view this?
- Are my clients paying for service and advice or are they paying for a product?

Exercise: Weigh the advantages

Below are 11 positive statements one could make about a fee-based practice. Score them on a scale of 1 to 5 based on your level of agreement. A maximum score on this would be 55; minimum would be 11 and 33 would be in the middle.

Advantages	Scoring				
	Strongly disagree		Agree		Strongly agree
Provide clients with what they want	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Keep up with industry trends and competition	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Eliminate conflicts of interest	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Reinforce your role as a professional	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Clients are really paying for advice and not a product	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Revenue increase over long term	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Attract wealthier, more sophisticated clients	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Revenue stream is more predictable	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Increase client engagement and loyalty	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Current clients are more profitable than new clients	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Increase value of the business (resulting from predictable revenue stream)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5

Total: 0

Exercise: Weigh the disadvantages

The following nine statements highlight potential disadvantages of a fee-based practice. Rate the degree to which you agree or disagree with the disadvantage mentioned. A maximum score of 45 indicates the maximum level of belief in the disadvantages. A score of nine would be the lowest (i.e., not overly concerned about the disadvantages), and a score of 27 would be the mid-point.

Disadvantages	Scoring				
	Strongly disagree		Agree		Strongly agree
Clients prefer not to pay fees	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Clients don't understand my value proposition	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Change is hard and stressful	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Too time-consuming	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Not appropriate for some/all clients	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Difficult to navigate through short-term revenue decline	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Some clients may leave	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Requires more resources to increase client capacity	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
Not enough assets to reach targeted revenue	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5

Total: 0

Exercise: Negativity check

The purpose of the two-part questionnaire is for you to weigh the pros and cons of a fee-based practice. It will give you a general idea, but in no way should it be considered scientific. Each advisor would apply a different weight to each consideration, so here's an additional exercise, called a "Negativity check" to dig deeper.

Go back to the Advantages list. Were there any *advantages* with which you *disagreed?* If so, which ones did you disagree with most strongly? That is, they appeared on the Advantages list, but you weren't convinced they really held any weight.

1	
2	
3	
4	

Now, go back to the Disadvantages list. Were there any *disadvantages* that you strongly *agreed* with? If so, which ones?

1	
2	
3	
4	

Section 2: Challenge assumptions

Challenge your views and ask your clients

Have a look at your strongest reactions. What proof do you have that will support these thoughts or beliefs? Can you test them? Do these thoughts or beliefs support you or limit you? For example, if you agree with the statements, "clients prefer not to pay fees" and "clients don't understand my value proposition," that's based on what you've heard in your business or from colleagues. To take these assumptions beyond a gut feel, survey your clients and ask your mentors and team for input. Changing your practice revenue model is a both an opportunity and a potential business risk. A bit of research at the front end will provide you with a more precise decision-making framework. We will also refer to research in Part 2 of this guide: see the section titled, "Ask before you leap" (page 22).

Section 3: Financial Impact

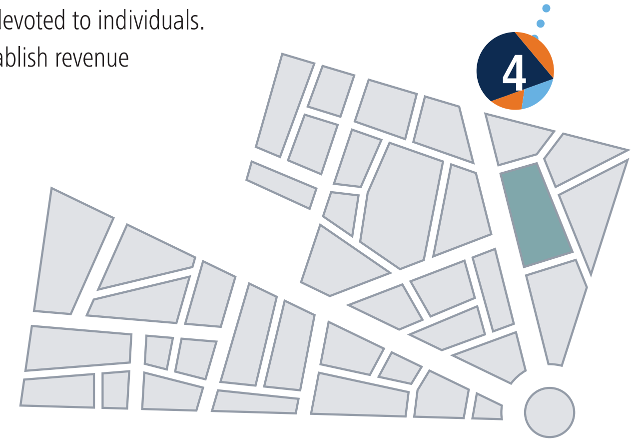
Estimate the financial impact

Though survey numbers show that many advisors experience a successful transition to a fee-based practice, it is not uncommon to see reduced revenue in the first few years. Again, though it is hard to predict with certainty what the result will be, it is possible to produce a well-informed estimate. This bit of financial analysis will help not only in your decision-making, but also in terms of setting targets during implementation.

Section 4: Client segmentation

Client revenue segmentation and profitability analysis

The rationale behind segmentation is that it allows you to think about your clients systematically, rather than relying on an amorphous impression of their wants and needs. At its most basic, a revenue segmentation shows which clients generate the most wealth, which ones generate slightly less, and so on. Once you have grouped your clients into different gross revenue segments, you can then look at your inputs: staffing and working hours devoted to individuals. This gives you the tools to see the profitability per client, so that you can then establish revenue goals per client and figure out which clients, if any, are fit for transition to fee-based. The analysis also allows you to think about your billing rate for your fee-based business.



Here are the components of the analysis:

A. Client revenue segmentation
B. Client profitability analysis (revenue minus overhead)
C. Setting your fee
D. Setting revenue goals per client
E. Estimating client capacity

A. Client revenue segmentation

Here's an unoriginal observation: Spreadsheets are wonderful tools for organizing, sorting and comparing. To segment your practice (if you haven't done so already), start by creating a spreadsheet with the following headings:

Revenue segmentation spreadsheet headings

Client (Household)	AUM	New assets per year	Asset based revenue (0.75%)	Commission based revenue (5%)	Other revenue (insurance, planning fees)	Client total revenue
Phil Adams	$500,000	$40,000	$3,750.00	$2,000	$250	$6,000.00
Mary & Doug White	$375,000	$20,000	$2,812.50	$1,000	$100	$3,912.50

Once you have your revenue data, you can now sort the data into chunks: A++ clients down to D clients. Create a range of revenues for each segment. Here is an example:

Sample practice segmentation

Client Annual Revenue	Revenue Segment	Total Number of Clients
$10,000 +	A ++	5
$7,500 - $9,999	A +	10
$5,000 - $7,499	A	25
$2,500 - $4,999	B	50
$1,000 - $2,499	C	75
< $1,000	D	100
Total		265

B. Client profitability analysis

In your new fee structure, you will want to cover your client costs at the breakeven point and earn a desired profit margin. There are many detailed methods to determine profitability, but the format provided here keeps the exercise manageable. It takes into account the time cost per client (for those functions directly related to client time and not for the total working hours in the business). And, it factors in fixed overhead costs per client and the time your team spends working for the client. Here is an example:

Sample advisor inputs for calculating an hourly rate

A	Advisor compensation after overhead	$ 200,000
B	Overhead per year	$ 125,000
C	Total number of clients	265
D	Total annual advisor client working hours	1,400
E	Hourly cost of team support	$25

Hourly rate = $200,000 / 1,400 (A / D) = $143

Profitability analysis

Plugging in an hourly rate, you can then calculate client profitability.

Client – Phil Adams	Formula	Assumptions	
Revenue			$6,000
Advisor time cost with client	Advisor client hours x Hourly rate (**A** / **D**)	10 advisor client hours	($1,430)
Average client share of overhead**	Overhead per year / Total number of clients (**B** / **C**)	$ 125,000 / 265	($472)
Team cost	Team time per client x Hourly cost (**E**)	4 team client hours	($100)
Breakeven point		Total all costs	($2,002)
Profitability			**$3,998**

*** Add to the "average client share of overhead" any specific or extraordinary expenses related to the client relationship. (e.g., travel, entertainment, one-time expenses)*

C. Setting your fee

Once you have completed your client profitability analysis, take some time to test different fee models. Take note of these considerations when setting your fee:

- What is my breakeven point for a given level of service for each client?
- What is my revenue goal per client for a desired profit margin? (See Component D)
- Is there a potential for increase in revenue from clients over the long term?
- Are previously unprofitable clients becoming more profitable?
- Are clients moving upward in my revenue segmentation (as defined previously)?
- What is the perceived value of the services offered? Is the new fee justified?
- How does your level of knowledge and experience compare to that of the competition?
- Does your team have a specific skill that differentiates your services?
- Does the business have the capacity to follow through on the ideal client service model?

D. Setting revenue goals per client

Calculate revenue goals per client for desired margins

Client: Phil Adams	**A**	Total client cost (breakeven point)	$2,002	$2,002	$2,002
	B	Margin goal %	100%	125%	135%
	C	Margin goal $ (**A** x **B**)	$2,002	$2,502.50	$2,702.70
	D	Client revenue goal (**A** + **C**)	$4,004	$4,504.50	$4,704.70

E. Estimating client capacity

What is your optimal number?

In a fee-based practice, clients look for service and advice. What is your capacity to provide service? Complete the following calculation to determine your client capacity for a given level of service and available hours. Complete a separate calculation for client segments with different service models.

Client capacity calculator

1	Total hours worked **per week:**	
2	Hours **per week** devoted to business management activities (business planning, new business development, team management):	
3	Total hours **per week** available for client management (**1** – **2**):	0
4	Number of weeks worked **per year:**	
5	Total hours **per year** available for client management (**3** x **4**):	0
6	Typical hours **per year** to manage a top client relationship (proactive service, communications, meeting preparation, administration):	
7	**Optimal number of top clients** (**5** / **6**):	

Section 5: Decision time

Decide and write your rationale

To close off your self- and practice evaluation, it's now time to decide. Write a concise verdict based on:

- Your weighing of the advantages and disadvantages of fee-based
- Your preliminary client conversations
- Your assessment of financial impact with regards to revenue, fees and client capacity

Start with this sentence: "I have decided that I will/will not transition my business to fee-based…"

Write your rationale below:

Planning a successful transition

In *Part 1* of *Your fee-based practice roadmap,* you completed a series of exercises to determine whether your practice is suitable for a fee-based model. You segmented your client list by annual revenue and analyzed profitability per client. You then established your revenue goals, set your fee and estimated your client capacity. Those are vital steps in deciding whether to move some or all of your practice to fee-based. The next steps help you plan so that your transition is successful. Many of the exercises are variations on field-tested business-building strategies, customized to the fee-based planning exercise. As in *Part 1*, the more effort you put into the exercises, the more powerful the results. In *Part 2: Planning and implementation,* you will work through the following sections:

Planning

1. Assess your fee-readiness
2. Emphasize value-added services
3. Analyze your Strengths, Weaknesses, Opportunities and Threats
4. Turn SWOT analysis into SMART goals
5. Ask before you leap: Survey your clients

Implementation

1. Choose which clients to switch to fee-based
2. Set your transition schedule
3. Figure out which part of your book you want to start from
4. Build your transition list
5. Plan and monitor your practice finances
6. Fee-based communication essentials

Next Exit

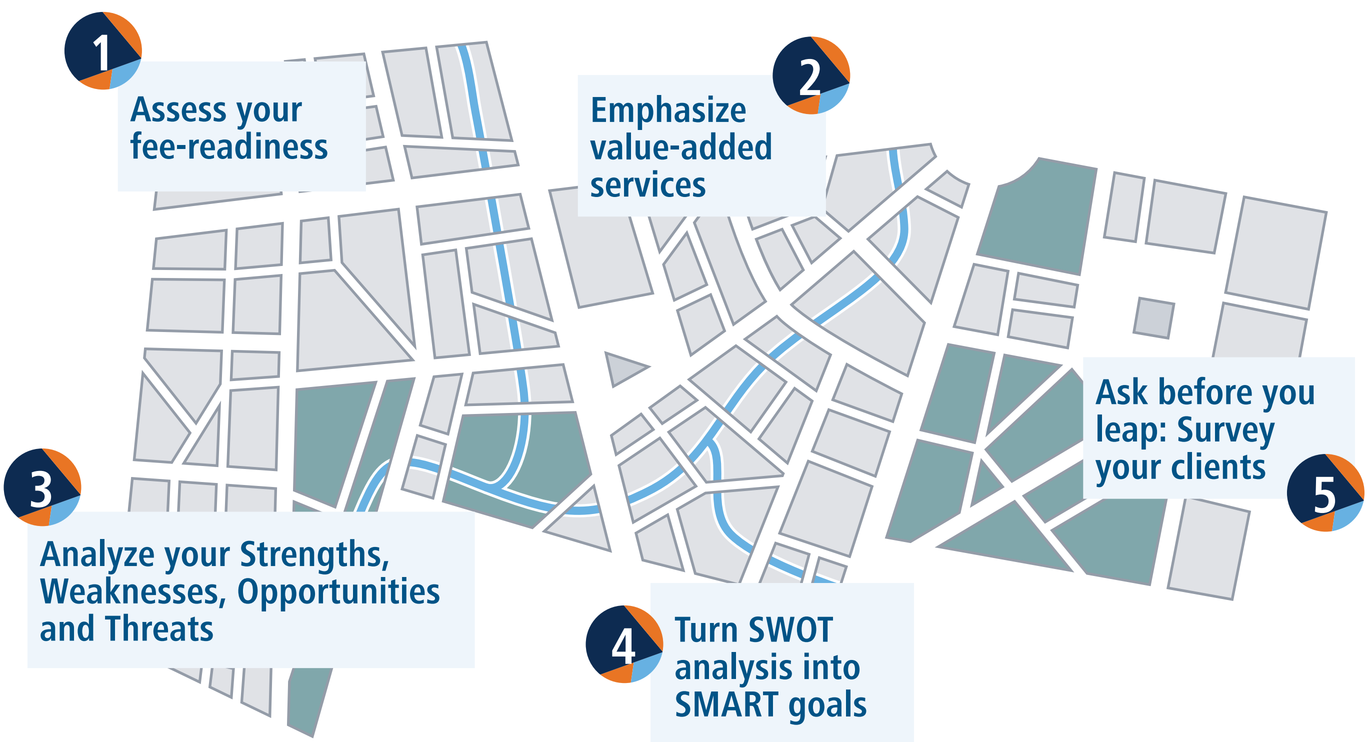
Planning & Implementation

Charting your path to success

Welcome to

Planning

5 sections



Section 1: Assess your fee-readiness

The following **Business success factor checklist** will enable you to evaluate your current practice in terms of your ability to deliver services and solutions in an ideal and consistent manner to your clients. It will help you prepare your business to be fee-ready.

Business success factor checklist

Business success factor	Weak				Strong	High priority	
Strategic planning							
Strategic business plan completed	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Strategic marketing and communications plan in place	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Value proposition completed	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Mission and vision completed	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Industry designations	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Differentiating factors of the business are clarified	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Ideal client profile is identified	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Fully understand the needs of target market(s)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Clients are advocates of the business	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Capacity, segmentation and profitability							
Client capacity is calculated for ideal proactive service	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Client segmentation completed	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Client profitability calculated	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Clients understand everything that you do and can do	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Clients understand the depth of your resource network	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No

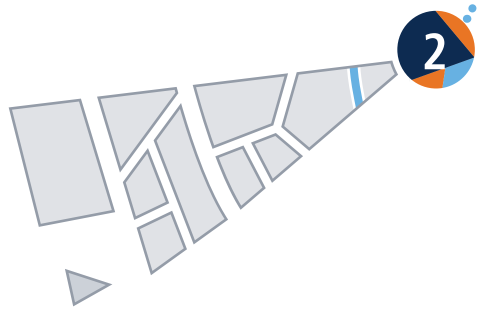
Business success factor checklist *(cont'd)*

Business success factor	Weak				Strong	High priority	
Systematic process							
Organization chart is created for accountability	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Procedure manual documented for ideal client experience	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Client service matrix	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
New client development and discovery process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Re-discovery process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Client feedback process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Annual review process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Client appreciation process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Client education process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Infrastructure/technology/CRM system in place	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Team is well trained and competent	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Value-added services							
Financial planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Investment management and asset allocation process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Tax planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Wealth protection and insurance planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Estate planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Charitable giving planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Intergenerational planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Education planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No
Disability planning process	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ Yes	☐ No

Section 2: Emphasize value-added services

In a fee-based business, the focus is advice and service. In today's marketplace, many aspects of the transactional model have been commoditized. The following is a list of commodity activities and value-added services. **Ask yourself, do you spend most of your time on commodity activities or on advice and service activities that demand a premium price? Check the boxes that are relevant to your activities.**

Focus on advice and service



Commodity activities

- [ ] Asset allocation
- [ ] Analyzing portfolios
- [ ] Analyzing the markets
- [ ] Strategizing about the markets
- [ ] Portfolio construction
- [ ] Portfolio rebalancing
- [ ] Transactions
- [ ] Consolidation of information
- [ ] Reporting

Advice and service activities

- [ ] Understanding the client
- [ ] Turning information into insights
- [ ] Helping clients navigate life-changing events
- [ ] Educating clients
- [ ] Needs analysis
- [ ] Risk profiling
- [ ] Family vision
- [ ] Due diligence on third party investment partners
- [ ] Comprehensive reviews
- [ ] Discipline
- [ ] Reassuring clients
- [ ] Coaching
- [ ] Family resource
- [ ] Planning for the expected
- [ ] Preparing for the unexpected
- [ ] Cash flow management
- [ ] Tax and estate planning
- [ ] Disability planning
- [ ] Wealth transfer strategy
- [ ] Charitable giving strategy
- [ ] Wealth protection strategy
- [ ] Team resources (internal and external)
- [ ] Centres of Influence

Checklist review

Given that a fee-based business typically places greater emphasis on advice and service activities, it is important to ask yourself some critical questions:

What services do I want to offer my clients?

Will there be any changes to the responsibilities of team members to implement an ideal client service model?

What processes (manual or automated) need to change for the practice focus to shift?

Are there any tools, skills or technology required? (e.g., new contact management system)

What are the benefits to my clients after the change is made?

How long do I want the transition to take?

What are the one-time costs involved?

Section 3: Analyze your Strengths, Weaknesses, Opportunities and Threats (SWOT Analysis)

A SWOT chart allows you to look at your business from the inside (**Strengths** and **Weaknesses**) with regards to a fee-based switch, and from the outside (**Opportunities** and **Threats**). The table below will help you identify strategic areas to focus on.

Fee-based SWOT chart

Internal	Internal	External	External
Strengths	**Weaknesses**	**Opportunities**	**Threats**
What strengths can we use to achieve our goals and to differentiate using a fee-based model?	What weaknesses do we have that will interfere with our ability to differentiate using a fee-based model?	What external opportunities can we build on to achieve our goals and to differentiate using a fee-based model?	What external threats could prevent us from achieving our goals and to differentiate using a fee-based model?

Section 4: Turn SWOT analysis into SMART goals

With apologies for overdoing the acronyms, the next step is to turn your Strengths, Weaknesses, etc. into SMART goals. Go through your SWOT analysis and list goals that you can accomplish over the next three to five years. SMART goals are **Specific**, **Measurable**, **Achievable**, **Realistic** and **Time-bound**.

SMART goals that take advantage of your strengths

SMART goals that capitalize on your opportunities

SMART goals that eliminate your weaknesses

SMART goals that protect against any threats

Section 5: Ask before you leap

Survey your clients

Before changing your business, it is crucial to survey your clients, so that you can gauge their understanding of the proposed model and their willingness to adapt to the change. Based on your segmentation and profitability exercise, identify the clients that are candidates for the transition. Also, look for clients you believe will not be interested.

There are several ways to obtain feedback from your clients and, while you may not be a professional marketing researcher, you can gain valuable insights about implementation if you carry out any of the exercises below.

- Client advisory council (focus group)
- Telephone
- Mail or email survey
- Online survey
- One-on-one in client meetings
- Survey after a seminar

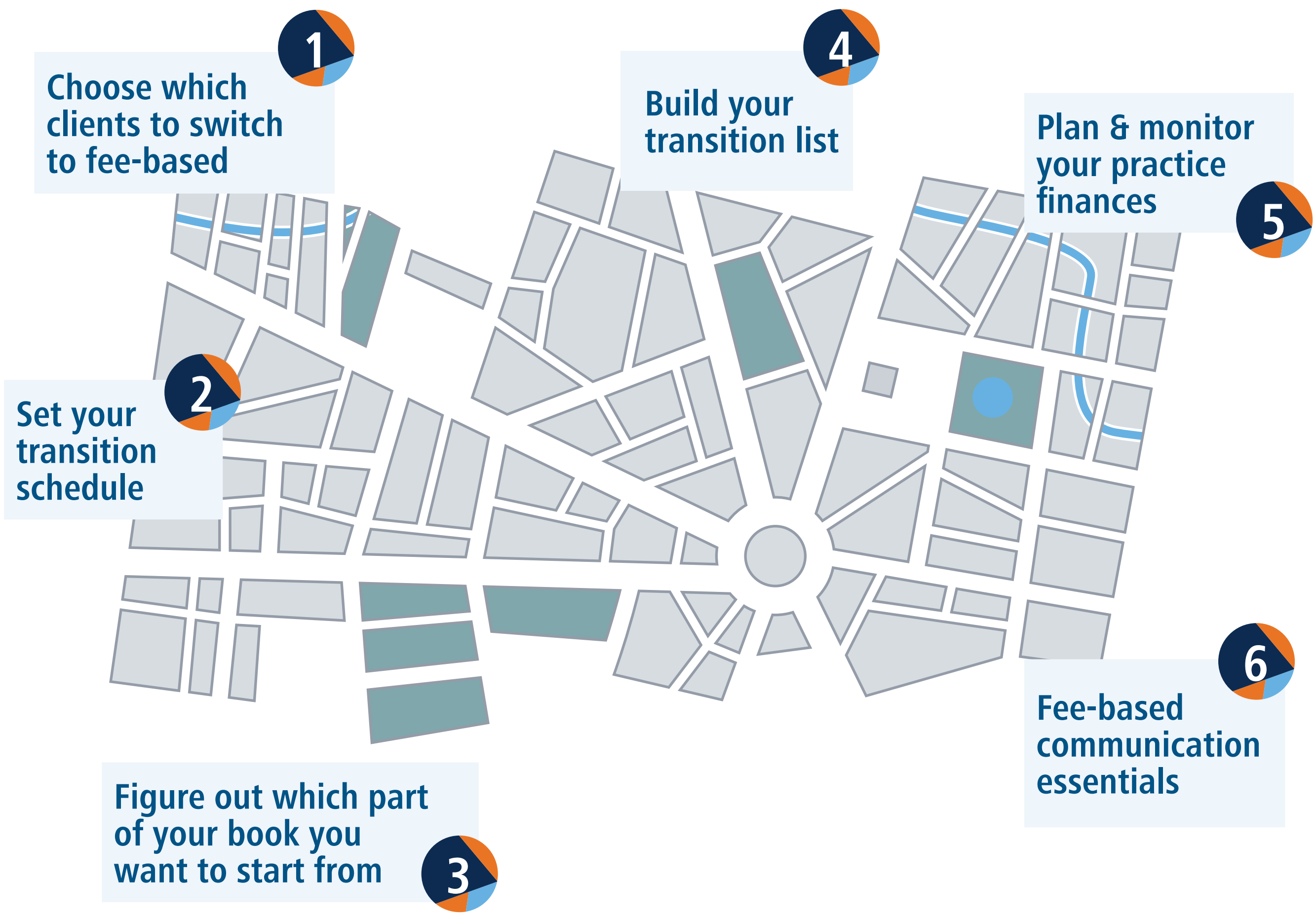
Here are a few tips to improve the quality of feedback:

- In focus groups, be aware of social influences within groups and facilitate the discussion to encourage everyone to have a voice.
- In your questionnaires and meetings, communicate the benefits of fee-based to the client and explain your reasons for the change. Balance this with trying not to lead clients into saying what you want to hear. It's a survey at this point, not a persuasion-fest.
- With any survey, brevity helps. Seven questions are better than 30 and succinct questions are better than graduate school theses.
- Always thank clients for their feedback.

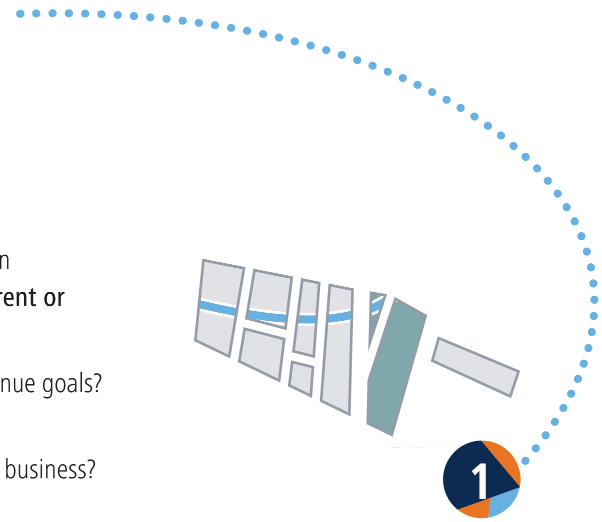
Welcome to

Implementation

6 sections



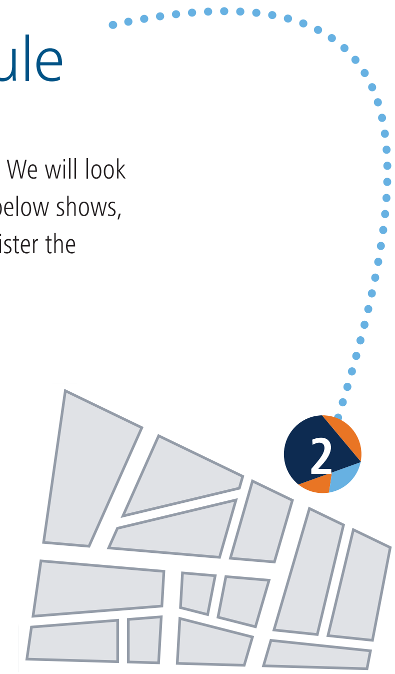
Section 1: Choose which clients to switch to fee-based



Your research will help you determine which clients are ready. Here is an additional lens through which to view the decision: **Is the client a current or future "driver" of your business?** For example:

- Does the revenue per client make sense based on your targeted revenue goals?
- Are they are part of the nucleus of core clients?
- Are they part of what makes up 80% of income and assets for your business?
- If not a top client, do they have the potential to become one?
- Are they interested in complete financial planning? If so, they will understand your value.
- Do they provide all the information needed for you to make proper decisions? This indicates they value the relationship and your advice.
- Do you manage all their assets? If not, consider asking to consolidate for economies of scale.
- Are they advocates of the business? If so, they will help your business grow.
- What is the nature of the relationship? Is it easy? Do they listen to your advice? If so, this shows they value advice and are more willing to pay for it.
- What are the potential future assets to invest? This allows you to forecast potential fee-based revenue.
- How will the client benefit from the change? (i.e., better services, cost reduction, transparency)
- Are there any DSC charges or taxable events involved?
- What services does the client require? Do you have the capacity to follow through?

Section 2: Set your transition schedule



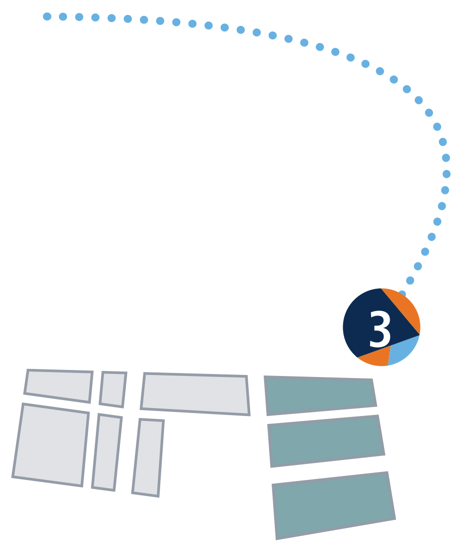
After determining which clients to transition, the question turns to how you should go about it. We will look at this in two ways: how many clients per month, and which clients to start with. As the table below shows, somewhere between six and ten clients per month allows you time to communicate and administer the change (extra workload for you), while maintaining a high level of service for all of your clients.

Sample transition goals schedule

A	Total number of clients	265
B	Total clients making transition	230
C	In addition to regular client management, how many clients can be realistically transitioned per month?	10*
D	**Total number of months to make the transition** (**B** / **C**)	23 months

**Aim to transition between six to ten clients per month*

Section 3: Figure out which part of your book you want to start from



If you've ever had to do some touch-up spray-painting to a car, you'll know that the instructions will tell you to start by painting an area of the car that isn't visible, such as the lip under the door. That way, you can find out whether you're about to create a disaster, or whether it's safe to proceed. Similarly, when transitioning clients, you can choose to start with the lower tier, in order to refine your process before transitioning your upper tier. The following is a list of the pros and cons of transitioning various segments. You can choose what works for your circumstances.

Start with your top tier clients:

Pros

- Top clients generate more revenue. As a result, you may see a smoother revenue transition.
- Top clients may provide you with more assets as they become aware that any new money is not subject to upfront commissions or DSC schedules.
- May lead to a natural or gradual transition to a higher net worth practice.

Cons

- As this is a new project, your messaging and communication may not be as well practiced as you would like. This could lead to confusion and objections from your best clients, damaging the relationship.

Start with your bottom tier clients:

Pros

- You can make your mistakes on your approach and conversation with lower risk.
- They are good candidates for an actively managed portfolio solution (such as Symmetry) to free up your time to provide advice and service.
- Bottom tier clients can become more profitable quicker.

Cons

- These clients are less likely to convert. You may become discouraged after hearing many objections and, in turn, less motivated to complete the transition process with your top tier clients.

Start with your mid tier clients that you have great relationships with:

Pros

- By starting with these clients, you can listen to any objections they may have and anticipate these in your meetings with top tier clients. It also increases your chances of earlier success by having increased motivation, revenue, confidence and practice with a group you are comfortable with.

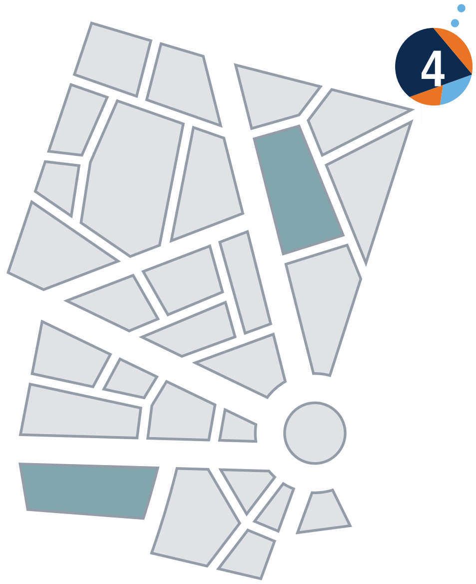
Section 4: Build your transition list

The spreadsheet headings below give you a system for tracking the transition progress.

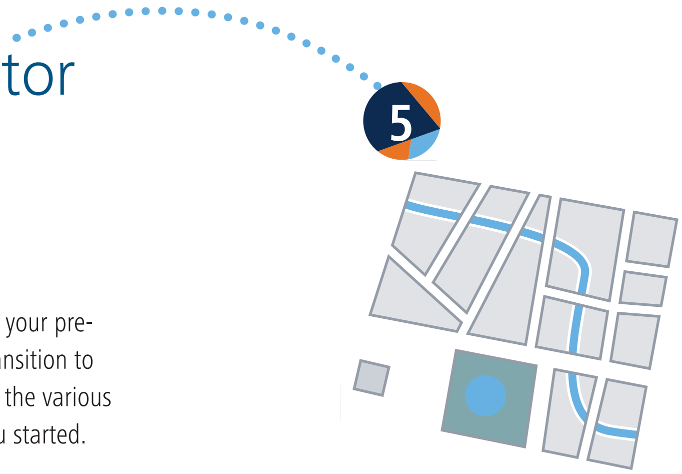
Transition list spreadsheet starter

Client (Household)	AUM	Transition	Tax	DSC (other)	Notes	Managed solution
Phil Adams	$500,000	January 2014	No	No	Eager to make transition	Mackenzie Private Wealth Counsel
Mary & Doug White	$375,000	January 2014	No	No	Requires charitable giving strategy and planning for disabled persons	Symmetry

Note: If a client requests an unscheduled meeting with you that is weeks or months in advance of your pre-planning transition date, you may decide to speed up the process by introducing the change at that time.



Section 5: Plan and monitor your practice finances



A critical part of your implementation is financial measurement. In your pre-planning, you established revenue goals for your clients. As the transition to fee-based gets underway, it is important to monitor revenues from the various sources. The table below provides spreadsheet headings to get you started.

Transition cash flow planner

	A	B	C	D	E	F
23-month transition	Income from fees (i.e., planning, tax preparation)	Fees from asset-based accounts	Commissions	Total monthly revenue (A + B + C)	Monthly expenses	Cash flow (D – E)
January 2014						
February 2014						
March 2014						
April 2014						
May 2014						
...						
...						
Total						

Section 6: Fee-based communication essentials

How to handle the transition conversation

Once you have done the homework leading up to actual implementation, you will have greater confidence in speaking with your clients. Your approach will become more refined as you have more discussions, but the following suggestions provide a good starting point:

1. Always introduce the change face-to-face with clients.
2. Practise your approach ahead of time with a trusted colleague.
3. Focus on the benefits with your clients, such as transparency and eliminating conflicts of interest. Show them articles about the trend to fee-based.
4. Remind them that you are in the advice and service business. You are not a product salesperson.
5. Give clients the choice. If they decline, then revisit at a later time once they have had a chance to see your business evolving. Ask permission to revisit at a later date.
6. Show clients how your success is aligned with their success.
7. Show them how you are different than the competition.
8. Reintroduce your services to them for an understanding of your value. Use a commitment and partnership agreement to define your service offering.
9. Be prepared for your clients to say "yes." Clients are prepared to pay for value.
10. Communicate changes to your centres of influence.

How to handle client objections

No matter how confident you are that a client will make the transition, it is important to anticipate objections. It is also important to expect that you will get more questions about fees in the near term, as costs will no longer be embedded. Here are some common objections you may come across:

"I can get the same thing for free (less) with other advisors."

It is important to be aware of what your top competitors' fees are in the markets that you serve. Also, a number of things are at play here. First, you may have to review with your clients how advisors get paid and help your client get reacquainted with the "ins and outs" of the financial advice industry as it relates to fees. Help them understand that there is always a cost. Next, it might be a good time to revisit with your clients what your value proposition is, the services you provide and the depth of your team both internally and externally.

"That fee is too high. I'm not sure if it makes sense for me."

You may want to respond with. *"Actually, we are quite proud of what we charge. I believe our fees accurately reflect the value of the top-notch advice and service you will receive from us. Can I show you some examples?"*

Or

"How much would it cost if you were to do it yourself? Do you believe that I can either boost your returns or protect your capital from mistakes in amounts that are more than what our fee is?"

"I don't require all those services that you are telling me about."

Possible response: "Of course you don't – today. Our service menu provides planning opportunities for various life stages, so your current needs would be a subset of the larger list. But we want our clients to know that we are available to serve their needs today and for the long term."

Focusing on life events: Turning the transition into opportunity

Your clients' questions can provide you with an opportunity to help them understand that there is more work that needs to be done. Everyone experiences a handful of major life events – good and bad – and these require some form of advice and planning. Explain to your clients that you help them plan for the expected and prepare for the unexpected.

There may be new opportunities to service the customer with new or modified financial planning solutions. Depending on the service you offer, many things could trigger these opportunities: an unexpected bonus, the sale of a business or a death in the family.

Position your business and create awareness for the client so they can recognize when a life event occurs. Your goal is to help the client become aware of your service menu, and that you will be available when they need you. Some common life events are listed below.

Life events that require financial planning expertise

Disability	**Critical illness**	**Education planning**	**Sale of assets**	**Premature death in family**
Wealth transfer	**Inheritance**	**Market volatility**	**Early retirement option**	**Job loss**
Severance package	**Commute pension**	**Salary increase**	**Promotion**	**New job**
Now self-employed	**Divorce**	**Lottery proceeds**	**Unexpected bonus**	**Exercise options**
Sale of real estate	**Downsizing home**	**Selling recreational property**	**Marriage**	**Birth of child**
Financial stress	**Business expansion**	**Buying business**	**Selling business**	**New business partner**

Success factor: Keeping your momentum when the going gets tough

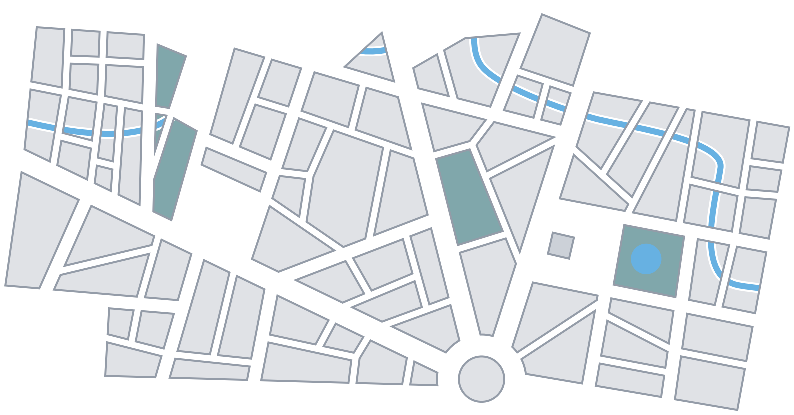
Even change that largely produces wins all around will still have rough patches. Over the 12 to 24 months of transition, the change will affect you, your team, your clients and even your family. When the inevitable roadblocks appear, it is easy for individuals to abandon the project and revert to what was more comfortable. When you get discouraged at any time in your transition project, refer to your answers to the "Fee-based momentum builder" checklist.

Exercise: Fee-based momentum builder checklist

1. *Why am I doing this? Why is this important? What is my vision?*
2. *Is this vision clear for my team and clients? Does everyone understand their role?*
3. *Who on the team needs help? (motivation, skills, tools, time, resources)*
4. *Who in my resource network can I rely on for support?*
5. *What are the real obstacles right now? How do I overcome them?*
6. *What is my transition plan telling me to do right now? Is it split into manageable parts?*
7. *What are some of the small victories I can celebrate along the way to keep me motivated?*
8. *Am I meeting weekly with my team to review successes, priorities and progress?*

Closing thoughts

The shift towards fee-based planning is growing in the financial services industry. Transitioning offers opportunities for growth, stability, predictability, and client loyalty. It has the potential to increase the value of your business. Take the time to plan ahead, prepare your business, communicate with your clients and manage change. If you follow through on the exercises in the Fee-based practice roadmap, you can improve your chances of making your transition a success. The choice is yours.



For Advisor Use Only.
No portion of this communication may be reproduced or distributed to the public.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.