Listen up and learn

In a fiercely competitive industry rife with jargon and other instruments of confusion, JIM STACKPOOL cautions against taking money from clients unwilling to take advice.

"Any doctor can write a prescription – there're so many options. That's the easy part. The very good doctors focus on diagnosing the problem before jumping to solutions. That's the way we operate, too – we focus on the advice relevant to our clients. If we prescribed a product that wasn't based upon a thorough diagnosis, the results could be financially fatal. We don't want to run that risk for our clients."

Errol Woodbury, CEO, Woodbury Financial Services

TWO OF our clients recently had similar epiphanies. Brian Pert of Pert & Associates from Queensland was invited to present a proposal for a prospect who had sold a business where the proceeds were in the millions. The prospect wanted to test Pert and his team with a parcel of funds. If Pert's parcel of funds performed better than others, he might get more.

Gavin Fernando, a director of Prosperity, based in Newcastle, was challenged by a client on every line of his annual statement regarding the performance his funds had achieved over the year. The client was adamant he could manage the funds in his spare time better than Fernando's team could.

Pert and Fernando both passed on their opportunities because the client or prospect wouldn't take their advice. They could have played the other game – turned the proposition into a product comparison and had another bite at the cherry – but they didn't. Why not?

It seems from the jargon we use that we're all providing advice. The word "advice" has taken over from "holistic" as a term used to confuse the customers. These words start with good intent but soon become weasel words clouding understanding of the products we provide.

When I started consulting financial services, I knew the value of properly segmenting a firm's client base. This was, and still is, one of the most basic of tools to help transform professional service businesses.

Proper client segmentation is more important than ever. Few would challenge that advice and product are entwined in our financial planning world. There are product generalists, who simply give the client the product they ask for. There are product specialists, who are experts on their products. There are client advisers who focus on providing the best possible solutions and may use external product specialists in the delivery of their services.

Some good advice about advice

There is a simple test to determine a quality client-advisory firm: will the client take our advice?

Advisers should not take on a client unless the client will take their advice. Think about the implications.

No matter how much product a prospect might throw on the table, Woodbury, Pert and Fernando will not take them on if they are unsure whether the prospect will take their advice. If the basis for their client proposition is solely best product or best price or best features, they aren't building an advisory firm but a product firm.

Don't get me wrong. The world needs product suppliers, too. But the techniques and strategies needed to build a product provider or speciality are very different to the strategies needed to build an advisory firm.

Witness the debate regarding industry super funds. The executive manager of Industry Funds Network, David Whiteley, was recently quoted as questioning the provision of "holistic, ongoing financial planning advice for what are, for most people, fairly straightforward issues".

Whiteley is correct, when product generalists tart up and charge for fairly straightforward financial issues as holistic financial planning advice. Product generalists don't really care if their prospects take advice as they are only remunerated by the product.

Product generalists will continue to lose control of their pricing options as product manufacturers squeeze distributors into the corner they want them in.

Most financial planners are relationship-based. I take that to mean advice-based. It's hard for great advisers such as Woodbury, Pert and Fernando to lose or leave a client because they won't take advice. But there's only one thing harder and that's taking on unadvisable clients.

Build an advice-based business. And have a great Christmas. ✪

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