How to Charge Fees and Still Get Paid Commissions

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I/R Code: 1850.02
Cassette: A0562
CD: C0562

The world is changing, it is changing for each of us whether we live in the UK, the United States, Canada, Asia, anywhere because the problems that we are facing are global and unless we can understand the problems we are facing we will not be in a position to find solutions to them and ensure that we will be in business in the future.

There is one significant point to understand here and this point is the foundation of our businesses. And that point is to understand that it is okay to make a profit. You see unless our individual businesses make a profit we won't be around in a years time, in three years time, in five years time. Unless we are profitable as business people, we won't be around and if we aren't around we won't be able to service and help our clients in the future. And if we can't help our clients, who will?

If we work from the frame of reference that it is okay to make profit within our business and it is okay to run successful business, then we must understand the challenges that are facing all of us over the coming years. Wherever we are in the world, the challenges we have to face are: Disintermediation, Commoditisation and Globalisation.

Disintermediation is a process whereby consumers are starting to look continuously at cutting out the middleman. Consumers are continuously looking at the products they buy and ask, "Can I get a better deal if I don't use a middleman? Can I go to an insurance company direct?" This isn't a problem unique to the insurance and financial service businesses. It is a problem all businesses face around the world; and development of the internet is causing this to be a greater problem in the future.

Disintermediation is only one small part of the problem we face. Commoditisation is an even greater concern.

Commoditisation is the process whereby our products and services are marketed in such a way so the only real comparison between them is price. Once you're competing in a commoditised field, you're competing solely on price; and it is for this reason that charging fees on an hourly basis is ineffective.

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If you charge $50.00 per hour and another advisor charges a $100.00 and another one $200.00 per hour then, if a consumer, a prospect or a client has nothing else to compare you on, they will immediately look at the price difference. While they will not necessarily always go for the cheapest because sometimes too cheap can be a warning sign, they will certainly not usually go to the most expensive; so by charging an hourly rate, you will immediately become a commodity. Hourly rates were developed back in 1600 when the Quill pen was in use. With a Quill pen, there is a set speed at which you can write and therefore a set amount of work you can complete; thus an hourly rate was developed as a way of charging for fees. If we charge an hourly rate for fees in the modern world, what we are saying is that we don't really want to be investing our businesses. We could simply get rid of all the computers in our offices and reinstall typewriters. This would probably treble the time it takes to complete work for clients and thus treble the charges. But are they going to receive additional benefit? No, of course they are not, and so this is the reason why we must look to the value which we provide to clients rather than simply the time worked on their case.

The third problem that we have is globalisation.

I don't know if you have noticed over the last five years the decreasing number of insurance companies and banks around in the world. Certainly in the UK we have seen merger after merger to the point where we have relatively few insurance companies and banks to provide the products for us to sell. I know this is the same across the world. If there are fewer providers, do you not think that competition among them for our services is going to fall and thus levels of commission they have paid to us is going to fall. If you really believe some form of unofficial cartel or arrangement will not be subtly developed among these providers then you are being naive. Increased globalisation will, by definition, drive down the commissions on which most of us have traditionally derived our income.

You can see through disintermediation, commoditisation and globalisation, commission levels are being driven down across the world. In addition to this, those of us who charge fees are being pushed into being commodities which again drives down these levels of fees. If you then add into this the fact that people are looking to restrict intermediaries through use of disintermediation, we can see that the traditional way of producing income to our practices is going to be restricted and reduced significantly over the coming years.

So what is it that has really caused this problem? What is it that we can do to actually turn this situation around? Simply charging for our services in traditional ways, I believe, is not the answer. I believe we have to go back to the business process which we use, the sales model we use, and make radical changes to our practices that change the perceptions of our business in our clients' eyes.

So let's take a look at the traditional sales process. This sales process is exactly the same whether we are selling cars, houses, condos or whether we are selling insurance policies. The sales process has been developed over thousands of years and each of us will recognise it.

The first step in the sales process is the fact find. This is the part of the process where we question the client as to what it is they want. Of course in a lot of circumstances the clients don't know what they want and certainly don't know what they need; so this questioning process, this fact finding process, is vital to develop knowledge of the client so we can provide them with the services and products they need.

The second step of the sales process is investigation or research. This is the process by which we take the information, which is being provided by the clients, and use that as the basis of our research to develop some form of recommendation, plan or report for our clients. This tells them what they need to implement. This investigation or research stage then naturally leads onto the third step, which is a presentation.

The presentation to the client can be in the form of a face-to-face presentation, a telephone presentation or a written presentation. Either way, you present your ideas and recommendations to the client in the hope that we will move to the fourth step of the sales process, which is making a sale.

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On the assumption that we then make a sale to the clients it is likely, for the vast majority of us, that we will then move onto the fifth and final part of the sales process, which is servicing the client.

Servicing may consist of quarterly, annual or tri annually review with a client but is a process of continually updating the client's circumstances and effectively jumping back to the first and second stages of the sales process.

Of course this sales process can take place in one meeting. But I would guess that for the majority of us, this sales process takes place over two or maybe even three meetings and perhaps more in complicated circumstances.

Now, here is the big problem that we all have. Traditionally we all get paid at the point of sale, it is at this point that were we receive an income for selling a product or service to the client and for most of us this income, if by fee or commission, is relatively good. However, this is the root problem with our practices. Because we receive this income at the point of sale, we use this income to subsidise the other parts of the sale. Because we receive a good income from the sale we believe, mistakenly, that this subsidises the fact find process, subsidises the research process, subsidises the presentation process and subsidises the service part of the sales process. Let's assume you are a broker that doesn't work for one company and spends a huge amount of time researching the companies available. You spend an equally large amount of time investigating each of the products that are available. If you spend this amount of time doing this research, do you get paid any more commission at the point of sale? Of course you don't. This simply demonstrates that the sale income simply pays for the sale; it does not, under any circumstances, pay for the fact-finding process, for the research process, for the presentation process or the service process. The income we receive for the sale is simply for the sale and we must make a huge paradigm shift in our mind. We must make a huge shift to understand that the income from the sale pays simply for the sale. It does not pay for the fact find process, it does not pay for the research process, it does not pay for the presentation process and it certainly doesn't pay for the servicing process. This is the biggest change which we have to make to ensure that we will be around in one, two, three, five and ten years. We must learn to charge for each stage of the process irrespective of what we receive at the point of sale. This means that we must charge for the fact finding process, that we must charge for our research and investigation process, we must charge for the process of presentation and we must charge for the servicing.

To do this we must introduce a brand new rule into our practice. This is a rule that I urge each one of you to take back to your practices as soon as you leave MDRT and the rule is:

If no payment is made, no benefit is given.

The rule says that if there is no payment made, no benefit is given. Ask yourself, if you went into McDonalds and ask for a hamburger, do you have to pay before you eat it? Of course you do. You are certainly making payment before your receive any product from the provider and that is exactly how you must structure your businesses. You must structure your business so that the clients pay for the fact find; you must structure your business so they pay for the investigation, for the presentation process and for servicing. But, you must do this in such a way as to not become a commodity, you must do this in such a way that you can be beyond compare with other competitors. To do this, you must learn to charge for your wisdom in a way that doesn't allow comparisons with competitors. Let me say that again: You must learn to charge for your wisdom in a way that doesn't allow you to be compared with your competitors.

I know from my experiences in the UK and in giving presentations to people in the UK, thata lot of people have problems with this idea of charging for different parts of the sale process, charging for your wisdom. But let me ask you this, think back to perhaps the last fact finding meeting that you completed and I want you to think about the process because this process for me goes something like this: A client will come into the office and we tend to have one of two clients, the first client comes in with

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a spreadsheet of all the bits and pieces that he has, all the products that he has, the policy numbers, their values and everything. That is probably 10% of our clients. 90% of our clients come into our practice and they are carrying two large bags, these bags have every piece of financial paper which they have ever had, most of our client have no idea what they have in place and exactly what benefits they provide and so usually that meeting is spent going through this information and separating the relevant documentation form the irrelevant information which, because of our years and years of experience, we can do very quickly. We can very quickly look at a document and understand if it is something they need to keep or whether it is just a circular which came from the insurance company. We do this instantly and through the fact finding process which may only take half an hour, perhaps an hour, we very quickly establish the clients' circumstances. Then what we would tend to do is explain to the clients exactly what they have got and what they haven't got. We tend to explain to clients exactly the advantage of the arrangements that they have in place as well as the challenges that they will have because of certain gaps in their existing planning. We can do this because of the huge amounts of wisdom that we have built up over the last five, ten to fifteen years, and because we can do this so quickly and so easily we do not understand the massive value that this is providing to the clients. We do not understand the huge benefits that the clients are receiving simply because we are clarifying their circumstances. Because we can do this so quickly we cannot see the benefit our selves. However if you were to ask the clients the benefit that they get from the fact finding meeting, you will find that it is a significant amount and so if that is the case, why should we not charge for the fact finding process?

Moving on from there, why should we not charge for the investigation or research process as well as presentation and servicing? There is no reason why we shouldn't charge. You see we really must understand that commissions that we receive for implementation of products is just that, it is commission for implementation it is not commission for any other part of the sales process.

Of course, this is all very good in theory but how do you go about charging clients for these different parts of the process? How is it that you can go about developing practice where you could charge for your wisdom rather than just a product sale? The answer to that is that it is a difficult process and one that you cannot do over night. I believe there is a three year process moving from where you are now to where you probably should be. So I would like to suggest is that we carry out an exercise now.

I would like each of you to take a plain sheet of paper and down the left hand side put the different parts of the sales process. That starts with the Fact find, investigation, presentation & servicing. And then across the top I would like you to put a column where is says "now" and a column which says "three years".

We are now going to do a very basic business plan. We are going to do this now because the chances are that when you leave here you may forget some of this information or some of the points may cool off, so let's commit now to making some changes in your practice and seeing how your practice could be in three years time.

Let's take a look at fact finding. I want you to ask yourself, if you went back to your offices tomorrow and made no changes to your practices, what amount could you comfortably charge a client simply for the fact finding process? What amount could you charge without destroying the chance of implementation? Many of you find that that amount is probably zero. Most of us will probably find it very difficult to implement some form of charging structure for the very first meeting simply because most of us have a traditional way of selling and prefer to give something away initially, a free first consultation. Unless we make radical changes to our practice whereby the clients can see some huge benefit in this first meeting it is unlike that most of us could charge tomorrow. So let's put down nil in the first box, and assume that when you go back to your practices on Monday that you couldn't charge for the first meeting. But in three years' time, let's assume that we can develop our practices into such a way that people would pay for the first meeting. Perhaps we could structure our practices so that they saw such a huge

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benefit in this that they are actually banging on the door and wants to come in and would happily pay you money simply to talk to you. Let's put down a figure an estimated figure of how much you would like to charge for that. I'll use an example of $500. Your figure may be $2, it may be $100, may be a $1000, it may be $5000 dollars, but that is your figure and everybody's will be different.

Let's come to the second part which is investigation. I want you to ask yourself how much you could charge a client now for doing that process of investigation and research. Remember this is based upon your circumstances at the moment and on the assumption that you make no changes to your practices, we are going to assume that if you went back to you practice on Monday that you want to start charging for that process. Let me give you an example of the kind of conversation that you would have as a client. The conversation would go something like this

"Mr. Client, thanks very much for spending time with me. I think I understand your circumstances well enough to put some form of recommendations together. Let me explain to you what I am going to be doing. I am going to go away back to my office and I am going to sit down and review the information that you have given me. This might mean that I might have to contact some of the providers you have products with at the moment to understand exactly what you have so I can understand if there are any shortfalls in your particular circumstances. Once I have that information, I have to calculate exactly where you need to be. If you remember we spoke about how your circumstances are and where you would like to be ideally and this is almost like a journey. This is like going from point A to point B, so what I am going to do is to fully develop the idea of point b where are we going to and then develop a structure from getting from point a to point b. It might be that we can't do everything in one instance, it might be that we have to wait a month, two months, six months, 12, 24 months to move you from where you are to where you want to be so I am going to put together a structure on how that should be done. Then I am going to go away and look at the potential products that are available (if I was tied to one particular company I might speak about some of their services; if I was a broker I might say that I will be looking across all of the companies in the marketplace to find products and services which are the most appropriate to you). Once I have done that, I am going to analyse each individual product and services to make sure that it really fits your circumstances. Then I am going to put that together in a form which you are readily understand and come back to you in a week's time, two weeks' time and present that to you. But not just in such a way that there is so much information that you're blinded with science but in such a away that you can readily understand what your circumstances are, how we are going to move to point b, and what the structure is from moving from point a to point b and what the costs involved in that are and what the benefits that you and your family will receive. And the cost for that process is XX."

Now who here doesn't think that they can have a conversation with a client like that and ask them to pay some form of fee? Ask yourself if you could have that conversation, what is an amount that you would be comfortable charging today? Let's assume that we would be very comfortable charging $50 simply by having that conversation and not making any changes to our practice. Then let's look at our practices in three years time and say, in an ideal world, how much would we would like to be earning in that case? How much would we like to be receiving from the client? Let's pick a figure, I am going to pick £1000 just as an example.

Let's now move onto the next stage, which is presentations. Again let's think about what we can charge a client for the process of doing a presentation to him tomorrow. Let's assume that we are not going to make any changes to our practice but if that is the case what is it now that we can charge for that meeting and presentation. Now the conversation about that would be something like this: "Now, Mr Smith, when I come back with all this information and the plan for you, I want you to feel very comfortable about meeting. Because I know from experience most clients are waiting for the sale, they are waiting for me to come back and sell them something which they are going

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to have to buy and I understand that makes some people uncomfortable. I understand that most people don't like "evil salesman" and so I want to take away all that pressure from you, I want to take away all that obligation and so to do that I will be charging for that meeting. That way you will feel under no obligation whatsoever and feel a lot more comfortable at that meeting. The charge for that meeting is XXX."

Now if you had that conversation with a client, what would be an amount you would feel comfortable with charging immediately? Again this is no changes to be made to the practice. Let's estimate $100. Then ask yourself how much would you like to charging in three years' time. Let's pick a figure of $500 in my example, but you choose the figures that you feel most comfortable with.

The next stage is the sale. Depending on your circumstance you might decide to charge a fee for the sale or receive a commission for the sale, that's really irrelevant. The point is you must decide with your client initially whether they are going to be paying a fee or whether you are going to receive a commission. For most of us here I am going to be guessing that you will receive a commission for the sale in which case just write commission across it and you might be happy to receive commissions in the future that's fine, you decide that. Remember this is not the conversation about the comparison of fees versus commission.

Lastly, let's look at the servicing. Imagine you had a conversation with your client, which went something like this: "Now I am pleased that we have put all these aspects in place for you, Mr. Client, and obviously what we need to do is make sure that these still meet to your circumstances over the coming years. Your circumstances are going to change every year, you are going to be seeing a pay rise every year, tax legislation is going to change every year, products are going to change every year, the economy is going to change every year and so the things that we put in place now might not be approved in the future. I know that our business has a bad reputation for promising lots of services and not providing it and that is because historically people in our profession get paid a commission for making sales and not necessarily for coming back year after year after year or month after month after month and providing a service which you really need. We are going to guarantee that we are going to come back month after month, year after year (whenever your repeat cycle is) and do all the things that need to be done. By charging a small retainer fee, we found clients feel more comfortable because then they don't feel that we are going to come back and try and sell them something every time we come and see them. I know when I come back to you in a year's time that you are going waiting for the sale. You are going to know what I am going to want to sell you something and yes we may sell you things in the future but I don't want you to feel under any obligation. I don't want you to think that I am going to be coming here to sell you anything. I am coming back simply to review your circumstances and ensure that you are moving in the right direction from where you are before you put our plans in place to where you want to be in a couple of years. That is why we charge a monthly retainer fee of XXX per month."

Imagine you have a conversation like that with a client. Ask yourself how much you would be prepared to charge a client on a monthly basis. Let's say $10 a month. Firstly who deals with clients that couldn't afford $10 a month? Secondly, who couldn't have that conversation with a client? Let's look at what the circumstance would have been in our ideal case in three years time. In three years time where would you like your practice to be? How much would you like to be charging? Let's say, for example, it is $100 a month.

Let's now assume that you are a typical advisor. A typical advisor in the UK would work 40 weeks a year if you take out holidays, bank holidays, study time and the like. Let's assume you have average activity. If you take the figures we have put down here and add them up, that means as an average advisor you will produce an additional income to your practice of just over $55,000 a year. Now remember that this is an extra $55,000 a year for simply doing what you are already doing and giving the benefit that you are already giving. Now who here wouldn't like an increase of $55,000 a year for doing nothing

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extra? Imagine if you did receive that. Imagine how many improvements you can make in your practice if you decided to reinvest that $55,000 back into your practice to develop it so you could ensure that in three years' time you can charge the fees we suggested. You could spend that money going to courses, visiting with other advisors, visiting other people around the world to learn how things can be changed so that you can make your practice into such a practice where the client will pay for the first fact finding meeting at a level of $500; where clients will pay $1000 for the research and will pay a $100 a month simply for being a client.

Now if you could do that, let's imagine that you are a typical advisor again in three years time. If we then add up our ideal world you will see that will actually give you income to your practice of $670,000. Now these are just my examples, but let me ask you this: if you had income to your practice of $670,000 simply from doing the process without making any product sale, how much more effective, profitable and stable will your practice be? Who cares if commissions fall, who cares if the client doesn't buy from you or if he buys product that have low commission. You are producing an income simply from the process that you have put in place. It is by putting the process in place and charging for that process that you can produce income to your practice which is based upon the benefit that you give to the clients and the wisdom that you are currently giving them for free.

Let's just take a step back now. We can see the problems that we have with disintermediation, commoditisation and globalisation. By charging for your wisdom, effectively charging for the process and the wisdom that you have, you can immediately mark yourself out from the competition. You can immediately move against globalisation because you are not dependent upon the commission which are payable within products. By taking the additional income you receive from making changes on Monday, that money can be invested so your practice can be unique and stop being a commodity. And because you are charging for your process, disintermediation will not bother you simply because you don't really care if the client buys from you or somebody else because you are getting paid for the process.

And so you can see that by charging for your wisdom at each stage of the process, you can readily receive commissions and fees but in a way which doesn't allow you to be compared with other people. But this only works if you do something about it. Unless you go away and make changes in your practice tomorrow, the hour that you spent here today will have been time wasted. I know experience shows that 93% of people sitting in these meetings do nothing from the ideas that they get. Let's make a change here; you each have a business plan in front of you, a very basic business plan. Each of you have goals as to what you should be doing when you get to your practice on Monday, each of you now have three year goals. Let's make a difference to that 93% figure; let's change that to zero. Let's make sure that 100% of you take some form of action when you get back to your practices. Now you may decide not to take all of the action I suggest, you might decide, just for example, to implement retainers. You might just decide to implement charging for the research or investigation. Whatever you want to do, that's up to you, but make some changes. If you don't make some changes your time will have been wasted. Make a commitment to yourself to ensuring this time has not been wasted.