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The Price Isn't Right

by Stephen D. Gresham and Glen E. Gresham

If you stop to think about it, there are a number of surprising parallels between the medical and financial-advisory professions. Both remedy issues vital to long-term happiness: health and wealth. Both require highly technical knowledge, coupled with personal and intimate service. Both require an initial assessment and diagnosis — a look at past and family records, a talk about current conditions. Also, both require a discussion of options and the delivery of advice: the doctor suggests various kinds of treatment; the advisor suggests savings, investment and distribution strategies. Finally, for both, the final solution may well require the help of other specialists and experts in the field.

The thing is, despite these many similarities, most doctors and financial advisors price their services in vastly different ways — and doctors have, by far, the superior model. The fundamental pricing model for the medical profession is based on the three stages of professional services rendered: examination-testing, diagnosis and prescription- treatment. When you visit a doctor, you pay for the appointment plus any tests performed by the doctor, hospital or specialist lab. When the tests come back, you may have an additional appointment, which you pay for, plus additional tests. You may then opt to visit — and pay for — a specialist as well. Once all of the testing is complete, your doctor and/or the specialist assemble the information and make a diagnosis. The doctor then prescribes a treatment, which can be as simple as a single medication or the recommendation to adjust your lifestyle (cut down on trans fats and lose 20 pounds). You may instead require a corrective procedure — surgery — or specific rehabilitative treatment, such as physical therapy for a sports injury. Each of these items requires additional payment to a specialist that is generally not the doctor you first visited with your condition. But note that your doctor was paid along the way for his or her help in diagnosing your condition and finding the right specialists.

Appointments and patient tests have become the cash cows of private medical practices. Many physicians keep track of their appointment and test rates on a monthly basis to guide their financial progress. One advisor I know has a physician client whose “business model” includes the monthly benchmark of 244 billable patient visits. If the doctor has not seen 122 patients in the first two weeks of the month, he accepts evening and weekend appointments until he's back on course.

Contrast this model with that of financial advisors. How and when does a client whose “condition” is that he's underfunded for retirement pay a financial advisor? Many advisors do not ask for a thorough list of financial disclosures in their very first meeting with a prospective client, and even fewer actually charge for this initial conference. Score one for the doctors, by comparison, who have set the bar higher for their participation in a first meeting — and been paid to boot.

In addition, consider that the vast majority of advisors still get paid in fees on assets and commissions, thus making most of their real pay only in the “treatment” phase of the advisory relationship. In other words, long after the client has submitted to the advisor's examination of his portfolio, provided information about his financial affairs and expectations and allowed the advisor to make a diagnosis of what ails his financial or retirement plan. Only then does the advisor earn fees and commissions for rebalancing portfolios, providing professional management and acquiring insurance policies for estate planning — all “treatment” services. And, of course, many prospective clients walk away or lose their nerve during examination, testing and diagnosis. Imagine if the doctor waited to be paid based on every new patient's acceptance of the full course of treatment. According to a study by The World Health Organization, 50 percent of patients do not take their prescribed medication as instructed by their physicians — even lifesaving medicines like beta-blockers.

Know Your Worth

Here are four ways to improve your pricing model — and boost your reputation:

“Invest” Your Time, Never Give It Away

Make your first meeting with the client count, literally. Janet (not her real name), an independent advisor in Connecticut, tells prospects that their first meeting requires three years of tax returns and costs \$500, which can be applied towards her first-year retainer fee if the prospect becomes a client. This means your pitch will have to be made before the first meeting, and the client may have to do some homework before coming to see you.

Require Full Disclosure

A Kentucky-based advisor tells clients it would be financial malpractice not to have a complete picture of their finances before making recommendations. Indeed. When you first visit a physician, he typically asks for records from your prior primary physician; he creates a full medical history from a thorough questionnaire; and new tests are conducted as part of an overall physical. This is an unmistakable profit center for the medical practice, but it's also a source of critical information for treatment. What would you think of a doctor that didn't ask for that information? Be sure that you, the financial advisor, ask thorough questions.

Promote Exclusivity

A prominent pediatrician I know in upscale Westchester County, New York, has just one partner physician, but works with 1,800 patient families. I'm certain few of his patients' parents are aware that their precious little darlings are competing with 3,000 other kids for the time and attention of their beloved family doctor. Likewise, most financial-advice clients don't know that the average registered rep has over 500 accounts (according to SIFMA). Talk up your practice specifics and be clear that your time is devoted to a select group of affluent families. If you have a lot of clients, try creating an upper tier of top clients that receives more attention and personal time before you start sending any away.

Insist on Annual Checkups

The greatest opportunity to earn additional assets from affluent clients is during calendar year-end reviews. Here are two reasons: First, it is the easiest time at which to compare your services to those offered by other providers — quarters are tricky and fiscal years are awkward. Second, most high-net-worth people earn the bulk of their pay from bonuses or profit-sharing that is calculated based on year-end results and paid early in the new year. These two factors create urgency for clients to examine their current providers and seek alternatives for that big cash infusion. Do you know when your top prospects get paid? Keep these things in mind as we head into 2007 and it will all add up. Your minutes and hours and days will begin to bring in more dollars.

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