

Transition to Fee-Based Advisor

A Four-Phase Strategy to Prepare for the Fiduciary Era

A Bill Good Marketing White Paper

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A Problem in Two Years Is a Problem Now

If you have a problem in two years, you have one now, don't you?

Based on pending reforms already enacted into law (Dodd-Frank Bill, Pension Protection Act) and regulations now being finalized, in the next two years, you will:

- Decide whether you are fee-based or commission.
- Lose a substantial part if not all of your 12b-1 fees.
- Give up management of 401(k) and IRA accounts unless you become a fiduciary.
- See advisory fees at the high end of the market come down as hundreds of thousands registered reps who are not yet fee-based move in that direction.

This was the conclusion of my September 2010 article in Research Magazine, "Impact: How pending reforms could drastically alter the world as we know it. This article is an interview with Lou Harvey, Chairman of DALBAR, arguably the leading market research firm in financial services.

If you have not read that article, do not pass go or collect \$200. Go directly to www.billgood.com/managechange. It's there for you.

Your problem in two years is: you must complete transition to fee-based advisor or you must be commission only.

Your problem today is: which way do I go? Assuming I am going to choose "fee-based advisor," how do I get there from here without an income a Class III Hemorrhage. . (Make no mistake: the term "Class III Hemorrhage" is apropos as it involves loss of more than 40% of circulating blood volume. See "The Mother of All Income Reduction Plans" in my Research article, "Impact.")

This article outlines a way to get there from here without undergoing the hated income reduction plan.

Fee Conversion Strategies

Very broadly, I have seen advisors pursue three strategies to convert to fees.

Cold Turkey: This involves a drastic change of business model. On a given day, you accept no more commission business. The income reduction plan is so severe that few are able to continue it. But those who can see their income drop by up to 70% can come through it in about a year.

Top Down Blend: In this method, the FA starts with top clients and converts them first while accepting commission business from bottom clients. This also entails a severe income reduction plan, although not as severe as **Cold Turkey**.

Bottom Up Blend

This is a specific strategy developed for subscribers to the Gorilla CRM System® for Financial Advisors.

It is a safe, realistic, and practical way wrap up the conversion to fees without joining the ranks of the destitute. Depending on the percentage of your revenue that is fee-based, it can take as much as two years to complete the conversion.

The key concept of **Bottom Up Blend** is:

Make the conversion without letting your production drop.

Using the Gorilla CRM System, you take four broad steps to survive the transition.

Understanding Bottom-UP Blend

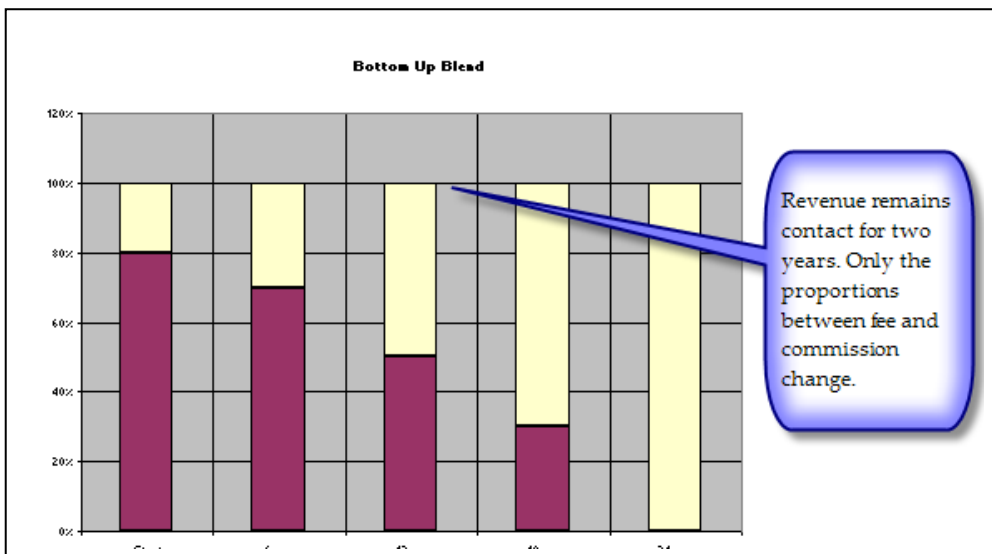
The objective of the Bottom Up Blend strategy is: convert to fees without a reduction in income. The term “blend” means that during the transition, some portion of your business will be commission until it is phased out.

To make a relatively painless transition, you will be conceptually breaking your business into two separate businesses. One will be growing, the other shrinking. But together their revenue should add up to 100% of what it is when you start. Your two businesses are:

- 1) Fee based practice
- 2) Commission business

By starting at the bottom of your book, you are converting small clients and inactive assets that were not revenue sources in the first place. So they do not represent an income reduction UNLESS you re take time spent producing commission and replace it with time spent on fee-business. Ouch. That can hurt. That’s why Phase 1 of Bottom Up Blend is so vital. You have to be properly organized.

Here is a picture of your following the strategy for two years.



Seeing stagnant income for two years is nothing to cheer about unless you alternative is a Class III Income Hemorrhage (which it is).

As an aside, the only people I have seen increase revenue AND convert to fees have been awesome prospectors.

With this as an overview, let’s look the four phases of Bottom-Up Blend.

Phase 1: Maintain Existing Production in Less Time

Before venturing into a new style of business, you need your current practice to be running as *efficiently* as possible.

Our strategy is:

- 1) Build a Model Day that compresses the time available for service yet gets service done.
- 2) Simultaneously, delegate non-sales functions by adding at least a part-time person and strengthening service support.
- 3) Re-establish communication with all clients, especially bottom tiers.
- 4) Re-evaluate client “goodness.”

You will need to figure out how to identify and mail to existing small clients and inactive accounts. If we’re going to start there, we need to be able to communicate with this group while leaving our “best clients” alone until we work up to them.

Here’s how the system has helped countless advisors launch their transition.

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While you are in training, you learn how to build a Model Day to compress service.

You also learn how to structure a team to whom you delegate your non-sales functions.

Under your coach’s instructions you get to work on this immediately upon return to your office.

On Thursday, following your return home, you mail your “Find the Money” letter. This campaign goes to your current clients and finds heretofore unknown assets they possess. We have heard many times over the years – “I run a full financial planning practice, I have all of the assets for all of my Clients, the Find the Money Campaign won’t work for me.” Guess what? It does work. We have only proved it 5000 times.

Our best estimate is: FAs coming onto the system control about 60% of their clients’ liquid net worth. You are going to need that other 40% for your transition. To get it, you first have to find it.

During this campaign, you've also put in place a part-time Computer Operator and you are strengthening your service support. By delegating non-sales functions and by locating and tracking additional funds, we routinely find that Advisors can *maintain their production in less time.*

Estimated time for this phase	3 months
Estimated drop in production	None
Method of accomplishment	<p>Find the Money Campaign in the System</p> <p>Add a Computer Operator part-time to take over all database functions.</p> <p>Create a Model Day that compresses the time available for service to no more than one hour a day.</p> <p>Strengthen your service support under our direction until you have achieved a state we define as "adequate service support."</p>

Phase 2: Begin Converting Inactive Assets and Smaller Clients

Phase 2 overlaps Phase 1.

As “Find the Money” rolls out, you will discover assets held by small clients. Clients you may not have spoken to in years will even call you.

You are strengthening your team and your time is freeing up. You will spend some of this free time converting smaller clients and inactive assets to fees. *Some of the money you find on your “Find the Money” campaign will be converted to fees, but not all. Remember you have to keep your current business level.*

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Once the “Find the Money” campaign is wrapped up and once you have created a couple of hours of day by delegating non-sales functions, we formally roll out Phase 2.

Portfolio Review

It rolls out with a letter sent to a few bottom clients each week. It sets up a client review and asks them to prepare for that review by gathering up their brokerage, 401(k) and other financial statements. It tells them that a comprehensive review is necessary at this time.

You are going to decide how much time you can allocate to these. Your CO will send the letters in small waves. Your assistant will call and set the appointment.

Estimated time for this phase	If you really have set aside 2 hours a day and will see two small clients/day, you could wrap this up in 6 -12 months depending on how many small clients you have.
Estimated drop in production	None
Method of accomplishment	Team effort to get target number of client appointments set.

By this time, you are also completely confident of your method to sell advisory business. You’ve developed a list of favorite managers. And it’s time to go to Phase 3.

Phase 3: Develop a Prospecting System That Brings in Both Transaction Business And Fee Business

Most likely you need a prospecting system to bring in both kinds of business.

Let's be very clear right up front on a very important part of strategy: you will NEVER get there if you rely ONLY on referrals to bring in new business. Referral marketing is a vital part of marketing. But if you crunch the numbers and even assume you can increase referrals by 50%, you won't bring in enough assets to maintain income at 100% when you are 100% fees.

With this said, you will need *at least one channel other than referrals to bring in sufficient assets.*

Let's consider an FA with \$50 million. (This is the same FA I wrote about in "Impact" who stands to lose almost half of the practice income if pending reforms take effect.)

Right now production is \$150K in fees from \$10 million in assets. At 1.5% fee, this practice needs an additional \$16 million in fee-based assets. If competitive pressure drives fees are driven down to 1%, this practice needs \$40 million in fee-based assets just to break even.

Where are you going to get it?

You already have some of it, hopefully a few million more than you had six months earlier.

Let's say you started with \$10 million. You are up to \$16 million.

Based on your forecast of average fee, you need between \$9 million at 1.5% or \$24 million at 1%.

Can you get all of that from clients and referrals?

Probably not. And remember, we're not looking just at the next two years. If you want to double your business after the conversion, you need another \$25 to \$40 million. This means you need to raise somewhere between \$700,000 to \$1.6 million per month, depending on your goal and how long you give yourself to hit it.

It is the very rare FA who can pull off a conversion and rely ONLY on referrals. You will need *at least one channel other than referrals to bring in sufficient assets.*

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Here are the prospecting strategies:

- 1) Develop more Real Referrals.
- 2) Create a relationship map of top 25 clients so you can get introductions to

people you know your clients know as well as identify potential strategic partners.

3) Using your relationship map, get introductions to people you know your top 25 clients know.

4) Develop strategic partnerships.

5) Manage your social and business connections so they approach you.

If your relationships are not sufficient to create the asset base you require, we offer these mass marketing campaigns.

1) Money in Motion

2) Seminars

3) Transferring Management – a targeted mail/phone campaign to small business owners within 5-10 years of retirement.

Estimated time for this phase	1 year or more
Estimated drop in production	None
Method of accomplishment	Gorilla CRM® System New Client Development Campaigns

Complete the Transition

The last step in the transition is to take your top clients over to fees. By this time, you should have built up enough fees to at least cover what it costs you and your business to survive financially. When you have this much in fees, it's time to take the plunge and complete the conversion.

Estimated time for this phase	2 -3 years, from start to finish
Estimated drop in production	None
Method of accomplishment	Full "Transition to Fees" Strategy supported by the Gorilla CRM System® for Financial Advisors.

More Information

For more information, contact us

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