# Quantifying Your Value

Asserting value is no longer enough. Provable, measurable results – showing that your real value is at a multiple to the cost of working with you – should be the new norm in wealth services.

White Paper 3 in the Pricing Unapologetically series.

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**Summary**

For all of the endless talk about the need for wealth advisors to have a good value proposition, there's surprisingly little focus on actual proof: that is, specific, measurable evidence of the value delivered in a relationship. This white paper aims to address both why and how wealth services professionals can better prove in numerical terms the value they generate.

Pusateri Consulting and Training has developed an approach of quantifying real value in wealth services. Since 2007, we have used this strikingly simple framework to advise US and Canadian brokerages, private banks, commercial banks, insurance, and private investment counsellors to reset their pricing policies.

Through our consulting process, Pusateri's client firms have added more than $100 million in justified new and recurring revenue streams by doing one thing well: proving in quantitative, measurable terms that the real value the client receives is at a multiple to the fees they pay. We summarize here our experience, findings and recommendations.

We believe that fee transparency and competitive pressures will effectively require wealth services providers continually to justify the fees clients pay. Those advisors who explore their provable value may realize what other premium services have found: clients will enthusiastically agree to pay for access to services that provide significant, scarce and sustained advantages – if the services provider clearly shows and "proves" that for every dollar or hour spent by the client, the client's getting more in return.

## Opening Beliefs

We believe that

- Radical fee transparency demands offsetting real value transparency.
- Wealth advisors routinely provide significant value that they neither credit themselves for nor measure.
- Wealth advisors increasingly need to prove that they create measurable real value in excess of the cost clients pay for their services.
- Surprisingly, wealth services do not yet routinely show real value in measurable terms. This is a disservice to the advisor and client.
- Far more can be measured than wealth professionals typically realize.
- Time gained/saved and dollars earned/saved are the two key factors wealth advisors can measure.
- Asserting a value is no longer enough to persuade wealth services clients. Proof is needed.
- Price confusion is self-inflicted. It costs clients the same to work with a high-value provider as a low-value provider even though there is great variation in the quality and value of wealth advisors.
- A simple ratio, Real Value / Costs = Return on Investment or "Return on You," helps advisors prove to themselves, then clients, that the most important decision a client makes in respect of wealth may be their choice of advisors.
- Real value that is not measured does not necessarily create pricing power. Three factors create pricing power: differentiation shown, scarcity made explicit and measurable results.

Quantifying real value is the antidote to fee transparency and fee pressure. It is also a powerful way to differentiate your value with new clients, shorten sales cycles, avoid pricing concessions and retain assets and relationships with the next generation.  In this third white paper in Pusateri's Pricing Integrity series, we discuss:

1. Why wealth services should quantify value (but don't)
2. The key ratio: real value/cost = ROI or ROY
3. What can you quantify?  Two metrics: money and time
4. Quantifiable returns: investments and non-investments
5. How to discuss provable value with prospects, long-standing clients, referral sources and your own team.

### 1. Why Wealth Services Should Quantify Value (But Don't)

Cost transparency empowers buyers but also creates a problem.   Knowing just the cost can pervert a buying decision. Informed buyers need to know both the cost and value of what they are buying, but often see only cost. To determine whether a service is worth it, expensive or a good deal to the buyer, real value must be looked at relative to cost, or cost relative to real value.  Wealth services buyers increasingly understand the fees they are charged.  In the past, clients were often unaware of embedded fees or had only a vague understanding of what they pay.

> "Financial services have generally mounted a weak response to the challenge of fee transparency."

Financial services have generally mounted a deficient response to the challenge of fee transparency. Merely asserting value, often in trite, overused clichés, does little to persuade the buyer.

Consider the difference between saying "We offer holistic planning to families and individuals to define and realize dreams, now and in the future" -- standard financial industry fare -- and "We generate higher relationship ROI than our clients can realize in their investment portfolio.  And we can prove it."

Clarity on real value has not kept pace with fee transparency.   It's as though a huge bright light has been placed over cost while real value hovers in a dark corner.

### 2. The Key Ratio: Real Value / Cost

A far more effective approach than relying on obvious value propositions is to prove or actually quantify the value a client receives in exchange for the fees charged. That is, reduce the entire, complex wealth services relationship to a simple ratio:

**Real Value / Cost = Return on Investments (ROI)**

Or, alternatively,

**Real Value / Cost = Return on You (ROY)**

The wealth services business is masterful at looking at ROI in investment portfolios but fails to apply the same lens on its own services. Clients pay investment advisors to find stocks, bonds, mutual funds, ETFs, and investments in general that generate a return on investment. Analysts scour markets to find securities that generate more value than the cost to own them. Advisors and investors alike know that the S&P 500 or TSX returns say 8% per year on average, so a $100,000 investment in it would be worth $108,000 in a year, on average.

This same approach of showing returns on the cost of wealth advisor relationship is precisely what wealth advisors and their firms should embrace as a counterweight to fee transparency.

> "Frankly, advisors would be well served to quantify their value even if cost transparency were not a trend."

However, ask the head of a commercial bank to quantify the hundreds of millions of ROI her team of business bankers creates in a given year, acting as adjunct CFOs and M&A counsel to business owners, and you may get a blank stare. Ask wealth advisors, "How many millions of dollars of wealth have you generated for your client families over the last ten years?" and they similarly struggle to answer.

The reaction is no different in other areas of wealth management. Challenge an insurance specialist to put a net present value dollar value on the dozens cases he's handled, and he may first question whether it's even possible to calculate. A financial planner may be quick to give you the price of her services, $7,500 a year, for instance, but slow to tell you that her team and she created $200,000 in tax and other efficiencies for the same client.

> "Through layers of value created across all aspects of client's finances, we generate returns for our clients that would take decades of investment in equity markets to achieve."

### Does the Return on You (ROY) Outpace the Market's Returns?

Wealth advisors must quantify their real value if they are to truly convince clients that the fees are fractional to the overall value received. Wealth advisors whom Pusateri has coached show that they generate a return on investments far superior to what investors can get in investing in their portfolios. Advisors come to an extraordinary aha moment: "Through layers of value across all aspects of client's finances, we generate returns for our clients that would take decades of investment in equity markets to achieve."

Consider this comparison. If a client bought shares in Disney for $100,000 and the shares grew in value to $120,000 in a year, the client should be quite happy with a 20% return. If the client chooses to work with an advisor/team whom they pay $100,000 in fees, but the advisor's strategies generate $250,000 of value for the client in the first year through layers of value provided in investments, debt, negotiated real estate, tax restructuring, and estate efficiencies, for instance, the client should be thrilled. A 250% ROI would take years, maybe decades, to achieve in stock markets.

The point here is quite simple, and can be said to clients:

*As a client, your selection of wealth advisor is provably far more consequential to your family's wealth and financial comfort than your choice in mutual funds, ETFs, mortgage product, or other financial products you may buy.*

## Advantages of Quantifying Your Value

The risk/reward ratio for quantifying your value skews heavily toward the reward. Here are eight advantages. Quantifying real value

1) Stiffens the advisor's pricing resolve. Pricing is inherently emotional, both for the provider and buyer. For the seller, rejection of a price can invokes fears of rejection in general. Advisors who prove to themselves that they create real value, do better at banishing the self-doubt that undermines pricing conviction. Buyers are able to pick up the slightest wavering of doubt with an advisor.

2) Creates reasons to celebrate successes. Putting a number to a milestone makes it more memorable. Quantifiable "wins" are the product of two parties taking the right action: the advisor and the client. Clients need to take advice and act and should be given some of the credit for the success. As such, both parties can celebrate the wins that they have created together.

3) Fights familiarity fatigue. Clients tend over time to become more open to new relationships, even if the current one is fundamentally sound. If you show that you have made a family hundreds of thousands of dollars and that this value still accrues and compounds, they should be less likely to discount the impact you've made, and less likely to move to a new wealth advisor for the sake of trying out a new approach.

4) Arms your clients to defend the relationship. How prepared are your clients to defend your relationship when other wealth advisors try to poach the business? Consider the power of a client defending his or her present advisor relationship as follows: "We have enjoyed an 800% ROI in our work with our current wealth advisory firm. We are thrilled. Could you match such an ROI?"

5) Convinces the less involved family members of the value in the relationship. Retention rates are surprisingly low when the primary client dies. It's thus key to prove to the less involved members of the family that you've materially affected their family's security. Spouses or other heirs often transfer out as quickly as they can, a concern for wealth providers. To counter, advisors can quantify the effect their efforts have accorded a family. In many cases, advisors can show that they have increased a family's net worth by 50% more than the family might have achieved otherwise.

6) Builds referral sources and advocates' confidence in recommending you. Two factors drive or inhibit referrals: vulnerability and uncertainty. If the COI can say, "Advisor X is someone you should meet. His team and he pride themselves on creating measurable value, really changing the family's balance sheet, in a way that other advisors only assert," the COI will be more inclined to go to bat for you.

7) Shifts to value-based conversations from cost-based conversations. Three factors drive pricing power: quantifiable value, scarcity made explicit and meaningful differentiation. Where you put a number on your value, you can show price as a percentage of value. Clients fixate on price when they do not understand the value. Price is only a contentious issue in the absence of perceived value.

8) Surfaces and weeds out hopelessly cheap clients. For some people, paying less is a sport, who revel in an "I win, you lose" approach to business negotiations. If you show a quantified value to your work, and the client or prospect refuses to accept your price, you know that they will likely always be sticklers on price and likely neither respectful nor accepting of your work.

### So, Why Don't Wealth Advisors and their Firms Already Quantify Their Value?

In our experience, even the best wealth professionals are barely aware of the cumulative and measurable impact of their counsel. So why is this method of presenting value uncommon in financial services? For one, banks and financial institutions place a premium on steady returns, which in turn places pressure on business units to produce predictable results, often at the neglect of pricing the value they generate for the client.

Second, a ten-year bull market and steady profits for brokerages and lending businesses have lessened pricing scrutiny. This reality will likely come under pressure, as lower cost options compete for investor money, and challenge pricing models.

Third, wealth management firms often lack the conviction that their wealth advisors indeed add measurable value. Some firms allow mediocre advisors to carry the same business card as those who are exceptionally good.

This results in self-created confusion: it costs clients nearly the same to work with a provider of low value as it does a provider of higher value. While value ranges greatly from one wealth advisor to another, as in other skilled businesses, costs tend not to vary much nor are correlated with quality of advice, an anomaly of wealth services.

### 3. What Can You Quantify? Two Metrics: Money and Time


Money (or financial wealth) is an obvious metric one can quantify. Of equal or more value to some clients is the other measurable unit, time. We discuss both below. For those with enough wealth to provide substantial security, time savings (or gains) are more important than levels of wealth. How can you quantify the time factors?

- Earlier or sooner. Example: We allowed the client to buy their weekend ski house five years sooner than they thought possible. Clients routinely box themselves in with assumptions. Advisors very often contest these assumptions and create better outcomes ***sooner*** than clients though possible.

- Compression of unpleasant time. Example: By structuring the will and installing a third-party executor, the family was able to work through the execution of the will in four months when they would otherwise have had to contend with it for 12-18 months, all in a difficult time.

- Capitalize on temporary opportunities. Wealthy clients can capitalize on temporarily low-priced assets often only for short periods of the time (distressed seller needs the money in one week.) When did you execute in the timeframe the client needed?

- Speed the sale or purchase of an asset. Months of clients lives can be consumed by the paperwork and back and forth around buying or selling an asset: a business, investment property, etc.

### "Sooner" -- The Most Important Word in Wealth Services

Equally important is the concept of "sooner." This word, or its kissing cousin, "earlier," should be used constantly in advisor value propositions. The emotional benefit of creating good outcomes sooner is often invaluable – buying a cabin while kids are young when the clients thought it was out of reach; or helping a business owner exit his business three years before she thought she could. However, beyond emotional benefits, creating measurable advantages sooner also creates a compounding effect over time. If you caused your client to sell a business five years sooner, for the same amount she would have received five years later, you can lay claim to the compounding of the money, 5%-8% a year, for instance.

> "Wealth advisory teams cause clients to realize benefits ***sooner*** than they would otherwise. For many clients, there is no greater value."

### Measure both Net Present Value and Future Value

Generating value for a client early in a relationship creates significant advantages. These early advantages can and should be quantified. Advisors provide tremendous value when they generate benefits that compound in value over time, sooner than clients would achieve without the advisor. Advisor teams very often create advantages in the first year or two of a new relationship.

Net present valuing (NPV) future benefits is no less important. Advisors routinely implement strategies that will create a known future value, for instance, estate tax savings, and insurance strategies. Each strategy can be discounted back to net present value. A $5 million tax-efficient life insurance strategy may have a $2 million present value to the family.

### Reduce and Increase: Two Levers to Provide Measurable Value

A simple way to begin thinking about where wealth professionals create measurable value is to consider two categories: where you reduce costs and time spent, and where you increase wealth and open up time. Select examples are:

| Reducing | Increasing |
|---|---|
| Losses from holding onto losing investments too long | Speed to close on a property that many buyers are bidding on |
| Time spent resolving the will and estate | The value of a house they are selling |
| Time consumed in the sale of a business | The price a business owner gets for the sale of the business |
| Time spent organizing financials to refinance a house | The risk-adjusted returns on an investment portfolio |
| Time spent preparing for tax season | Tax benefits on where assets are housed |
| Time lost in indecision about an emotional issue; forced the issue and cleared the air | Increase the speed with which clients move money , which allows the clients to make opportunistic investments when risks become mispriced in favor of the buyer |
| Detecting problems early | The yield on a bond portfolio. |
| Getting a risk resolved sooner | Buying power of the client with access to pre-approved credit lines |
| The costs in fees the clients pay for a private equity fund in which they invest | Realized gains by convincing a client to sell most of his or her concentrated equity holding |

### 4. Quantifiable Returns

Wealth professionals can quantify far more of their value than they initially realize. Here are select examples of investments and non-investments points of value to which measurable value can be ascribed.


#### Examples of Quantifiable Investment Value

Advisors create real value both in what they cause clients to do and not do. For instance, many advisors in March 2009 convinced their clients to stay invested and not to sell at the bottom of the market crash. Other examples include the following:

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| **Sell investments when the client did not want to.** |
| **Buy investments when the client did not want to.** |
| **Avoid buying at the wrong time.** |
| **Not selling when the client wanted to, notably during market corrections.** |
| **Prevent the client from investing in an idea they heard at the golf club.** |
| **Diversified a concentrated portfolio before the concentrated position lost value.** |
| **Use prudent amounts of leverage to increase returns.** |
| **De-leverage prudently.** |
| **Cause a hyper-cautious client to take on more equity risk.** |
| **De-risk a client who was overexposed to volatile or illiquid securities (e.g., too old to have 100% in small caps).** |
| **Move a client into non-correlated alternative investments. Produce measurably better risk-adjusted returns.** |

#### Credit and Lending

Immense wealth has been both built and destroyed through the use of credit. Wealth advisors who understand the power of good credit and employ smart strategies can create major shifts in a client's balance sheet. Managing liabilities is as important as assets, and can generate as much or more provable value. Here are some examples:

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| **Use strategic credit to avoid unnecessary taxes by selling one asset to buy another.** |
| **Use strategic credit to buy a second asset that also appreciates.** |
| **Convert bad credit into good credit that's less costly, more tax-advantaged, and easier to service.** |
| **Renegotiate expensive debt lower: credit cards, etc.** |

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| **Fund tax-advantaged life insurance with credit.** |
| **Use of credit to diversify holdings.** |
| **Use of credit to enhance long-term investment returns.** |

## Real Estate

Nearly all clients own real estate, and for many, real estate is their largest asset class. Real estate is a demanding asset and requires levels of care and attention other asset classes may not: not easily bought or sold, is subjected to local market fluctuations, and bears unique liabilities, unlike equities and bonds, where the investor bears only the risk of losing the value of the security, not lawsuits, etc.

At the same time, real estate can be a far more gratifying investment: houses are places that carry emotional significance in a way an ETF cannot. Real estate is tangible: some investors like to see their asset. The owners can apply their own efforts to increase the value.

All of this to say that your counsel and involvement in your clients' real estate likely matters to the client. Here are ways you can measure your counsel.

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| **Negotiating a lower purchase price for real estate on behalf of your clients. They made their money when they bought at a favorable price.** |
| **Preparing for sale. Clients, especially when they are selling their parents' estate, often do not optimize the property for sale.** |
| **Negotiate a better sale price when your clients are selling.** |
| **Vet and select the right real estate brokers. Some clients only transact real estate a few times in their lives.** |
| **Analyze and visit investment properties. Advise on whether to buy and, if so, at what price.** |
| **Exit emotionally draining investment property.** |
| **Introduce better tax treatment: accelerated depreciation.** |
| **Review rental agreements, involve commercial realtors and bring rents up to market rate.** |

## Real Value to Business Owners

Business owners' biggest asset in value may be their business, beating out investment portfolios and real estate holdings in importance. Wealth advisory teams very often provide counsel to business owners, playing the role of adjunct CFO, HR department, and investment banker among others.

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| **Liaise with the commercial banker to structure a favorable credit facility.** |
| **Restructure company debt and capital.** |
| **Select a better commercial banking relationship.** |
| **Find value between business and personal wealth planning.** |
| **Advise on the hiring or firing of key personnel.** |
| **Negotiate with the business owner the purchase of a competitor's business.** |
| **Find buyers and prepare the business for sale. Bring in an equity specialist or an investment banker. Negotiate better terms with the investment bankers, knowing how big their margins are.** |
| **Introduce estate planning efficiencies that affect the sale value of the business.** |

### Elder Care and Health

Nearly all clients at some point confront the emotional and financial challenge of helping their parents manage elder care and later-life health decisions. Wealth advisors very often roll up their sleeves and work beside clients to manage through difficult decisions. The emotional benefit of having a smart wealth advisor at your side as a client can be high and not easily quantified. Yet many of the elder care decisions wealth advisors counsel on do carry significant monetary consequences. Even wealthy families can see their financial comfort materially changed through elder care costs. Here are a few examples:

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| **Find and vet eldercare facilities for your clients dealing with their parents.** |
| **Negotiate fair (lower) terms.** |
| **Ensure that clients do not commit to "no out clauses."** |
| **Find an equally good private health insurer at a lower cost than the present provider.** |
| **Health bills: fight insurer's bills on behalf of your clients.** |
| **Submit and manage complaints on behalf of the family in terms of treatment.** |

### Financial Planning

Proper financial planning creates provable value on multiple levels. When advisors cause clients to make smart planning decisions sooner, advisors can lay claim to years of additional compounded growth caused by the timely use of strategies.

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| **Tax loss harvesting.** |
| **Finding new tax deductions.** |
| **Moving wealth into protected trusts.** |
| **Moving wealth into charitable structures and avoiding unnecessary tax losses.** |
| **Cross-border planning efficiencies.** |
| **Placement of wealth in the right jurisdictions.** |
| **Cash management coaching: causing clients to spend more prudently.** |

### Estate Planning

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| **Updating a will on time.** |
| **Place assets in a tax-advantaged trust or another vehicle.** |
| **Creating a fair but not equitable estate arrangement for the next generation and having the conversations with each heir to forestall later costly litigation** |

### Employment

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| **Helping the client land a good job.** |
| **Negotiate a payout package.** |
| **Negotiate a better salary.** |
| **Using your network to make connections that lead to professional gains or sales. What is the value of your SIM card, the people you have on your speed dial?** |

### How to Discuss Provable Value with Clients, Prospects, and Partners/COIs

Client Discussions

The goal of every wealth team should be to be able to say and prove this sentence: "Our price is fractional to the overall value we provide." However, to be able to say this sentence requires a good deal of effort. Wealth advisor teams committed to the discipline of quantifying their value conduct Real Value Audits for each of their clients, or at least top clients, in order to establish the basis for proving this critical sentence. The process requires inventorying all layers of value provided, carefully determining the measurable real value in dollar terms, and then tallying the fees charged to the client during this same period of time.

Recommendation 1: Conduct a Real Value Audit with each client once a year. **Explain that you believe clients deserve ongoing proof that the value they receive is at a multiple to the cost of working with you.** Review what you accomplished with and for the client in the last year. Ascribe a dollar value. Show the fees charged and present the ROI or ROY (return on you) ratio to the client. Compare this ratio with the returns of the S&P 500 of TSX during the same period. Place a dollar amount to the net benefit the client earned.

Remember to tally the effects of compounding growth of real value you generated in prior years, as these are part of your relationship "alpha" as well.

Ask the client how they measured the impact of your work. Often clients will tell wealth advisors that the wealth advisor has undercounted the impact of their counsel.

Prospect Discussions

Lengthy sales cycles are the symptom of lack of buying conviction. Using quantified value as a way to pitch the prospect can shorten a sales cycle and reduce pricing concerns.

Recommendation 2: Highlight the amount in thousands or millions of dollars that you have generated on behalf of your clients in the last year, or longer timeframe. Be careful to be able to back up this claim. At the same time, don't be bashful about counting all aspects of your real value.

Recommendation 3: Estimate the real value in dollars and time that the client could gain if they engaged you. If you believe you can generate a $500,000 wealth planning advantage in one year, and it would cost the client only $25,000 to achieve, show your value as 20x ROI. If you can say that the client would need to invest only 20 hours to achieve, you can also suggest that a $25,000/hr. return on their time is possible.

Partners/Centers of Influence Discussions

Referral sources decide whether to refer clients based on two factors: vulnerability and uncertainty. Where they feel reputational vulnerability, or are uncertain how to position the wealth group, they generally will not refer: "I don't know how to differentiate you, or speaking about what it is that you exactly do for clients. I don't want to look uninformed."

Recommendation 4: Meet with COIs and partners to show them how much wealth you have created relative to the fees you charge. Be sure to walk through specific client examples where you have produced both investments and non-investments real value. Give your COIs talking points like these: "You should select only advisors who can prove their value far exceeds fees." "You should meet with wealth advisor team X, as they consistently find ways to create 150% ROI for clients."

## Your Investment Portfolio is Only a Proxy for Your Full Value

The performance of an investment portfolio is often what investors and advisors most closely monitor to gauge the success of the relationship. Remember, the investment portfolio is only the proxy for the full value of the wealth relationship. Portfolios are how clients pay wealth advisors, but they are not the sole aspect of the service. Granted, advisors can inject a great deal of alpha or outperformance in the investments. Ironically, advisors continue to spend most effort

> "An investment portfolio captures only a fraction of the overall value a wealth advisory team generates."

differentiating what is hardest to differentiate: their investment portfolios.

Current client reports miss all the non-investment portfolio aspects of provable value that wealth advisors generate. A better reporting system would track all "wins" that affect a client's financial picture. These include de-risking strategies, sale, and purchase of other assets at favorable terms, tax efficiencies realized.

Good wealth advice leads to material changes in a client's balance sheet over time. It's fully possible for an advisor to manage an investment portfolio at a steady performance of 8% gains per year, and contribute her most important benefits in entirely other areas of the client's wealth. Advisors can match the benchmark, and at the same time double or triple the net worth of a client in ways not reflected in current reporting.

### Remember, No Value is Casual

Advisors create substantial value simply through their counsel and judgment applied to matters important to clients. Advice on real estate, career advice, counsel to business owners in difficult periods, such as on exiting a bad business partnership, are a few examples of an endless list of ways in which advisors provide highly valued counsel. Advisors should not be bashful about quantifying the value of their "casual" counsel., as often it's the advice and counsel on non-investment matters where the most real value occurs.

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**Pusateri Consulting and Training –**
**Empowering organizations and individuals to discover,**
**articulate and capitalize on their unique value.**

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