had a clean sheet of paper", the process of building a financial planning business should start with a clear idea of the clients you want to target.

Client segmentation is as much an art as a science; effective segmentation identifies potential target clients by far more than just how much money they have.

Mackenzie says the target audience can be the starting point for the development of a customer value proposition (CVP); or a firm's CVP might dictate which segment it pursues.

"At the end of the day it doesn't matter that much, as long as there is a good match," she says.

Starting with the client is an approach also recommended by Sue Viskovic, managing director of Elixir Consulting.

"The first place I would start is to be really clear about my target market," she says.

"It doesn't have to be a unique niche; but I'd be looking for a target market that I can target services to easily and would be in a position where they need, and can pay for, advice.

"Once that's done, decide what type of service. I would get very clear around what the service is that I'm offering them – everything, from the types of strategies to the expertise I need to have my advisers qualified in."

Viskovic says the consideration of licensee should encompass more than its approved product list (APL).

"Nowadays you can build a business around a market that doesn't even need a product," she says.

Viskovic says that selecting a licensee – or deciding whether to acquire your own Australian Financial Services Licence (AFSL) comes down to what will enable you to most effectively and easily service the market segment you have

> "The first place I would start is to be really clear about my target market

identified and whose characteristics you understand.

Phil Butterworth, managing director of BT Select, says if a business gets its client segmentation right and can define a sound value proposition, it stands a good chance of participating strongly in what's expected to be a strong period for financial services.

"If you look at the next five years there's some interesting stats out there," Butterworth says.

"One is that the profit pool of the whole sector is going to grow by about 42 per cent from about $6.8 billion to about $9.7 billion.

"Part of the context for that is [that] superannuation is probably going to increase over the next five years from about $1.2 trillion to about $2.1 trillion, which is around a

## ASSET-BASED FEES ARE A DUMB IDEA

Scott Graham, managing director of The Customer Champion, author of the *Professional Planner* wealth market segmentation study, says it is shortsighted to pursue only clients that already have significant assets.

Graham says the vast majority of that market segment is already in a relationship with a financial planning business, and the propensity of these clients to shift to another financial planner is very low.

It might be OK to charge existing clients – who have accumulated some wealth – an asset-based fee, but "if you continue to charge *prospects* an asset-based fee, you're going to go broke", Graham says.

"If you only want to work with people with wealth, sell your book. Or another angle is, if you only charge a fee based on assets under management, sell your book. It's a different description, but it's the same answer."

Graham says the customer segments most likely to engage with financial planners do not necessarily have significant assets – one of the main reasons these segments are likely to engage is because they want help in accumulating assets.

"Understand that the customers that have wealth are either in a relationship and are very happy, or have decided that they're not going to work with a financial planner," he says.

"That means all of the prospects that are out there are at the younger end of the scale, and they do not have substantial wealth."

Graham says there's an overwhelming belief among these customer segments that it's inappropriate to charge a fee based on assets under administration or advice.

"We already know that very few people think it's appropriate to pay a fee based on assets under management," Graham says.

"It's a dumb idea.

"When you talk to people about how you should calculate a fee, it's not like they don't know. Very few people say, 'I don't know'. When it comes to how much, a lot say, 'I don't know', but when it comes to how, 60 per cent say it's a flat fee."

Graham says financial planners regularly claim that clients are quite happy paying an asset-based fee, because the client believes the planner has a vested and unambiguous interest in ensuring the client's wealth grows.

"How is it that a lot of financial planners are still charging on funds under advice, yet [they are saying that] a lot of customers are still very happy?" Graham says.

"Well, yes, you can talk your customer around, and when you are sitting there putting your value proposition before them... understand that this is the attitude they come in with.

"You can talk them around, but it doesn't mean they're going to remain happy with that charging mechanism for all time."