

# Using Pricing Practices to Strengthen Returns on Assets

## **WISE Member Video Presentation**

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David Lincoln  
[david.lincoln@wiseinsights.com](mailto:david.lincoln@wiseinsights.com)

Doug Trott  
[dougtrott54@gmail.com](mailto:dougtrott54@gmail.com)

# GUEST SPEAKER

## **Doug Trott**

*Former CEO and Board Chairman of PriceMetrix*

Doug Trott has more than 35 years of executive experience in the financial services industry, as well as operational expertise in product development and a passion for growing businesses.

Most recently, Mr. Trott was a Partner in McKinsey & Company's New York office. Earlier in his career, Mr. Trott co-founded and served as President, CEO and Board Chairman of PriceMetrix, a provider of SaaS data and analytics software to the North American full-service retail brokerage market, which he sold to McKinsey.

Before founding PriceMetrix, Mr. Trott founded, grew, and sold The Taddingstone Consulting Group, a boutique strategy consulting firm.

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# INDUSTRY TRENDS

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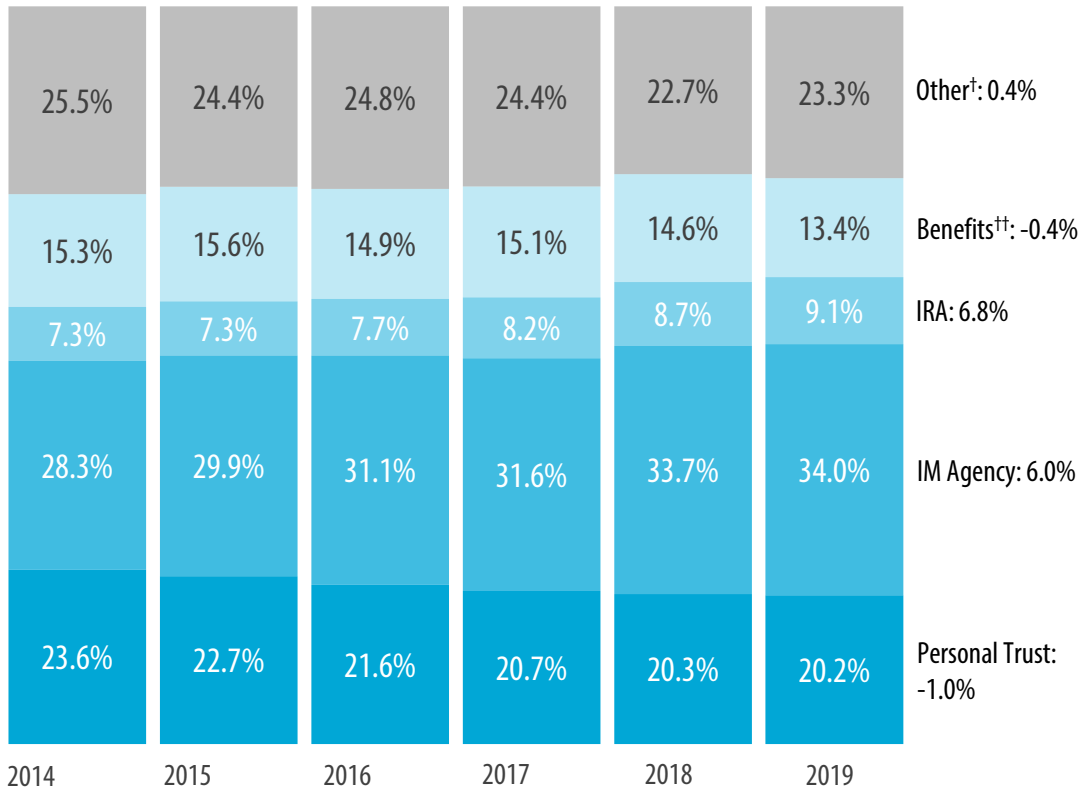
# MODEST GROWTH

## Investment Management and Trust Revenue Composition

Total Market, 2014–2019\*

### Revenue Growth Rates

2014–2019 CAGR



Other†: 0.4%

Benefits††: -0.4%

IRA: 6.8%

IM Agency: 6.0%

Personal Trust: -1.0%

### A Shared "To Do" List

- Strengthen sales cultures
- Expand relationships
- Retain business
- **Reduce discounts**
- **Improve pricing practices**

2014–2019 Compound Annual Growth Rate

**Total US Fiduciary Revenue: 2.2%**

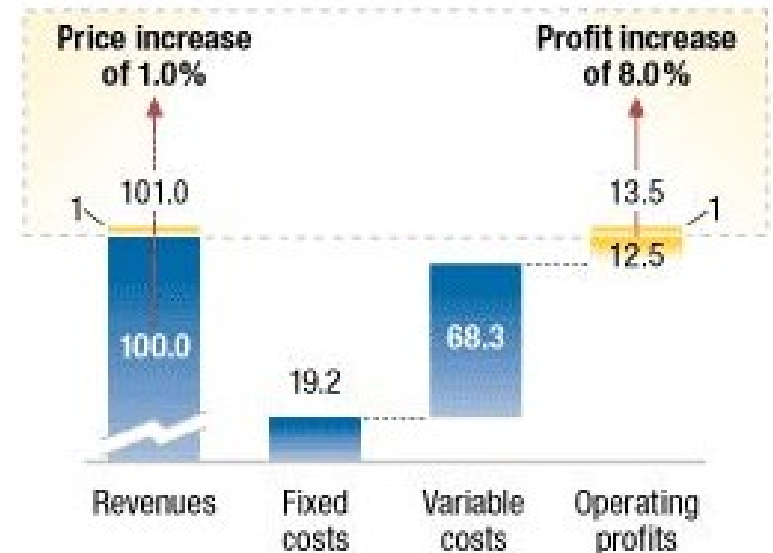
Notes: \*Source: FFIEC. Sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report). †Other: Foundations and endowments, corporate trust, other fiduciary accounts and revenue. ††Employee benefits: Defined contribution and defined benefit accounts. All metrics on this page exclude custody.

# PERFORMANCE ENHANCER

## A Powerful Lever

"Pricing right is the fastest and most effective way for managers to increase profits. **Consider the average income statement of an S&P 1500 company: a price rise of 1 percent, if volumes remained stable, would generate an 8 percent increase in operating profits**—an impact nearly 50 percent greater than that of a 1 percent fall in variable costs such as materials and direct labor and more than three times greater than the impact of a 1 percent increase in volume."

McKinsey Quarterly, "The Power of Pricing", February 1, 2003



## Service Goals: Pricing and Discounting

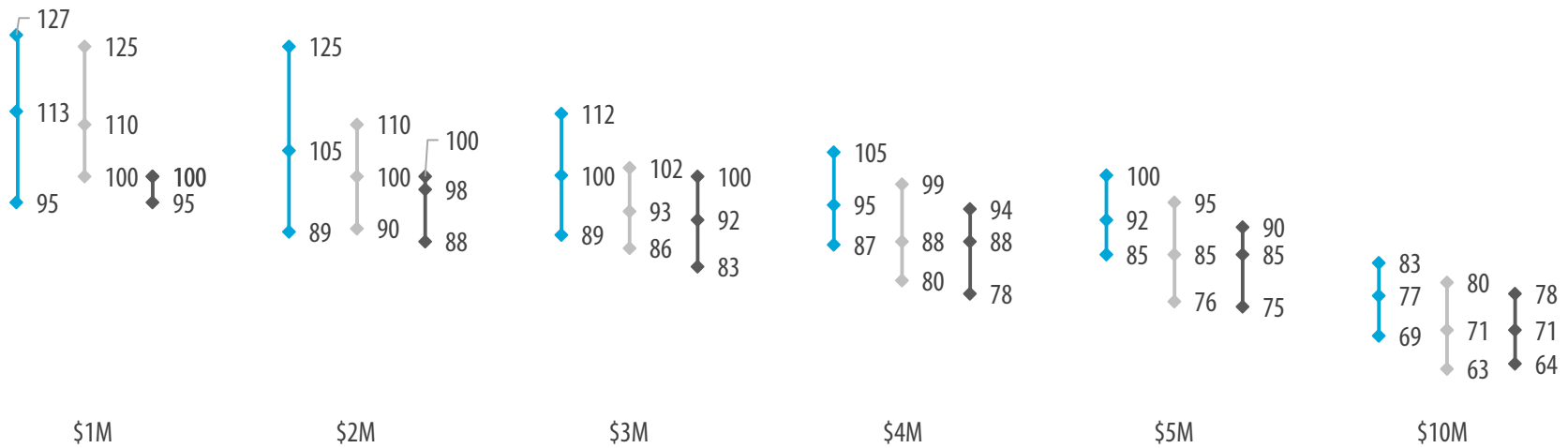
Improve pricing and return on asset outcomes by aggregating data, sharing best practices, and providing forums for exchanging ideas and insights.

# INVESTMENT MANAGEMENT FEES

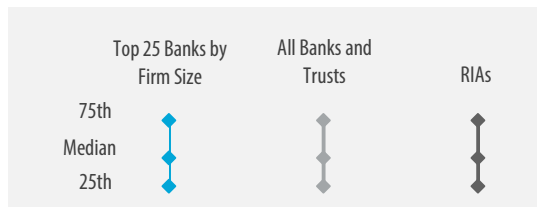
## STATED FEES BY FIRM TYPE

### Blended Fee\* by Account Size, Investment Management Agency

Interquartile Range, by Firm Type



Most banks and trust companies "look expensive" at \$1M compared to a typical RIA.

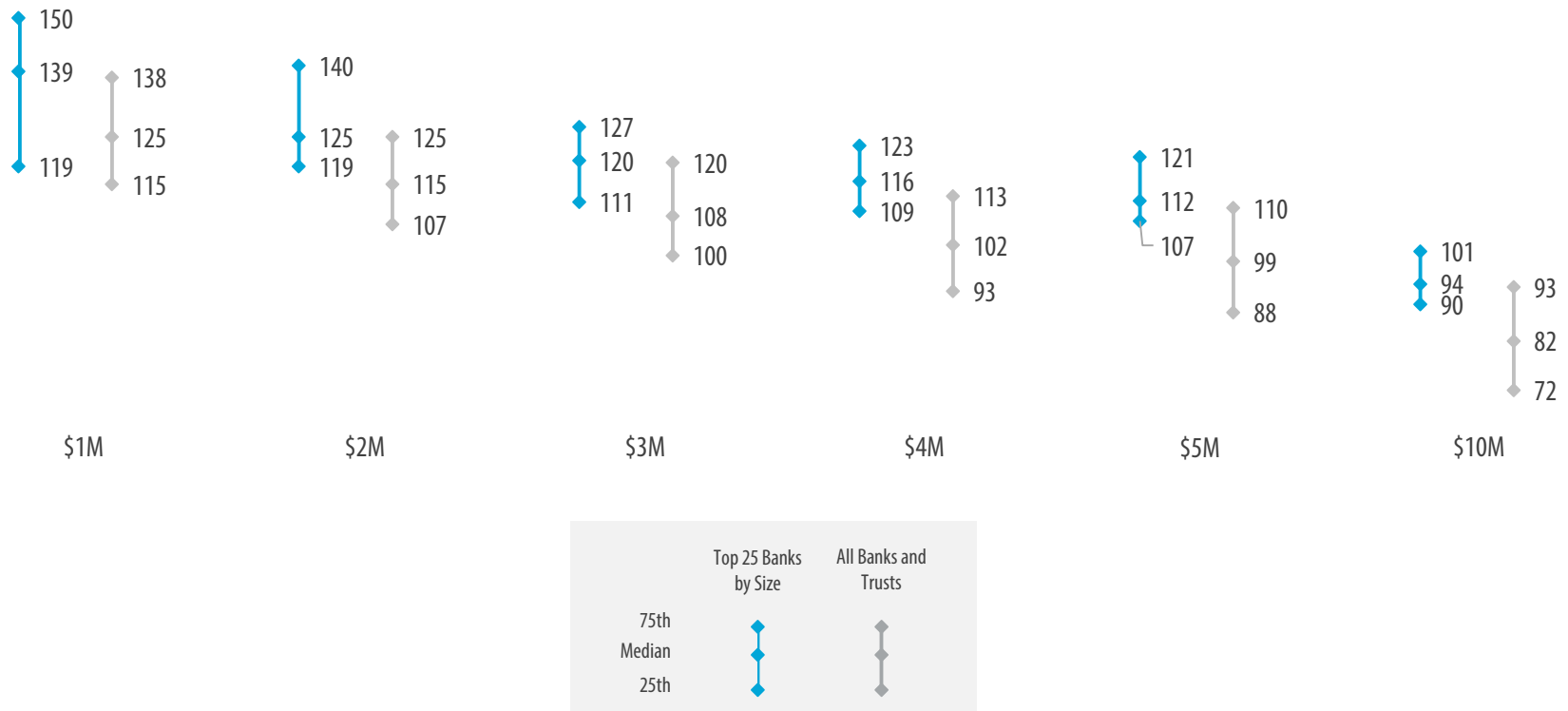


Notes: \*Blended fee: the blend of all asset-based fee tiers for a given account size, including base or flat-dollar fees. The interquartile range is the middle 50% of each sample shown, i.e., the range from the 25th to 75th percentiles.

# TRUST FEES

## STATED FEES BY FIRM TYPE

**Blended Fee\* by Account Size, Irrevocable Trust**  
Interquartile Range, by Firm Type

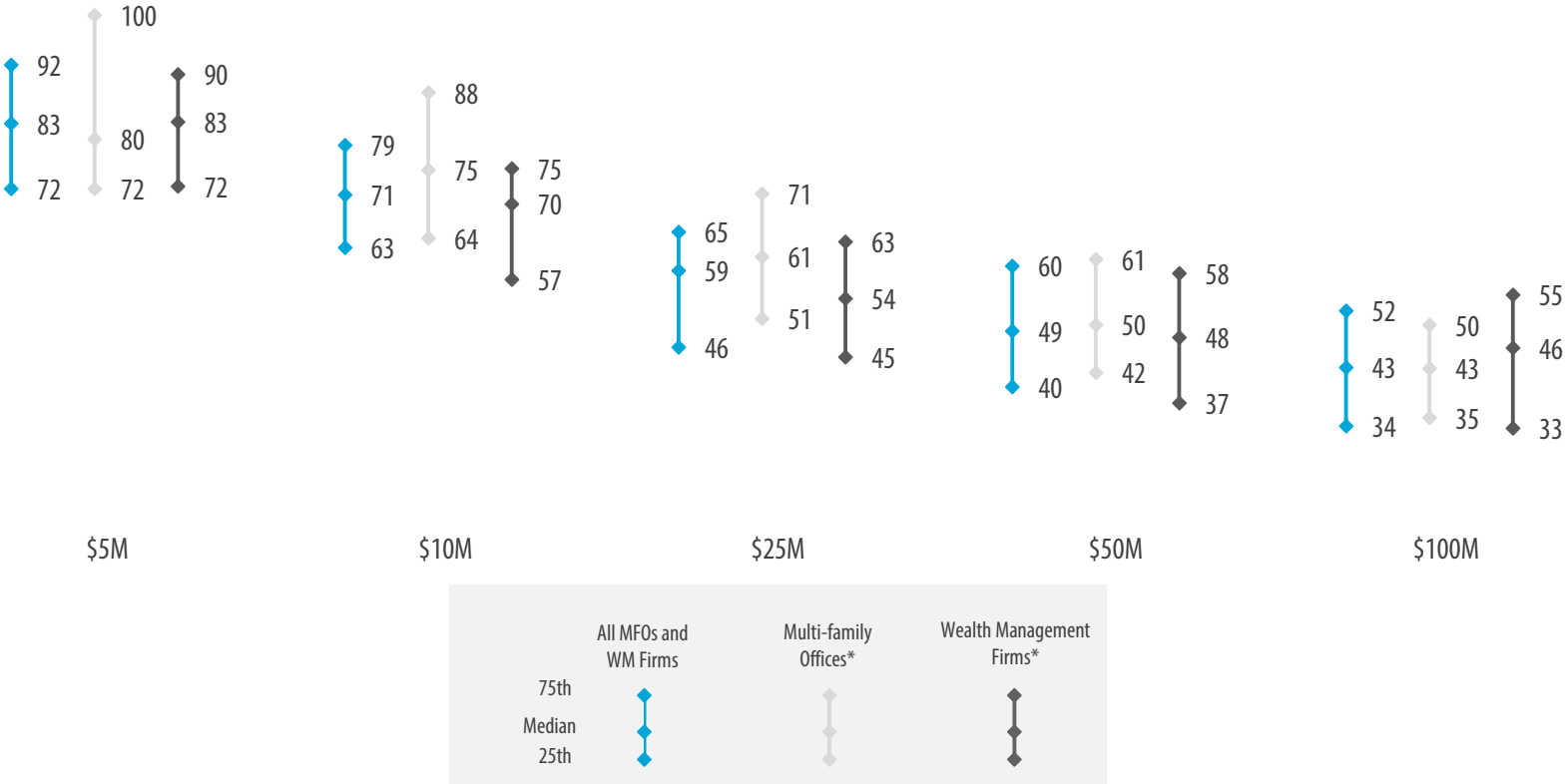


Notes: \*Blended fee: the blend of all asset-based fee tiers for a given account size, including base or flat-dollar fees. The interquartile range is the middle 50% of each sample shown, i.e., the range from the 25th to 75th percentiles.

# UHNW FEES

## STATED MULTI-FAMILY OFFICE AND RIA UHNW FEES

**Blended Ultra High Net Worth Fees**  
 Interquartile Range, by Firm Type, Situations Where Only Asset-based Fees are Charged

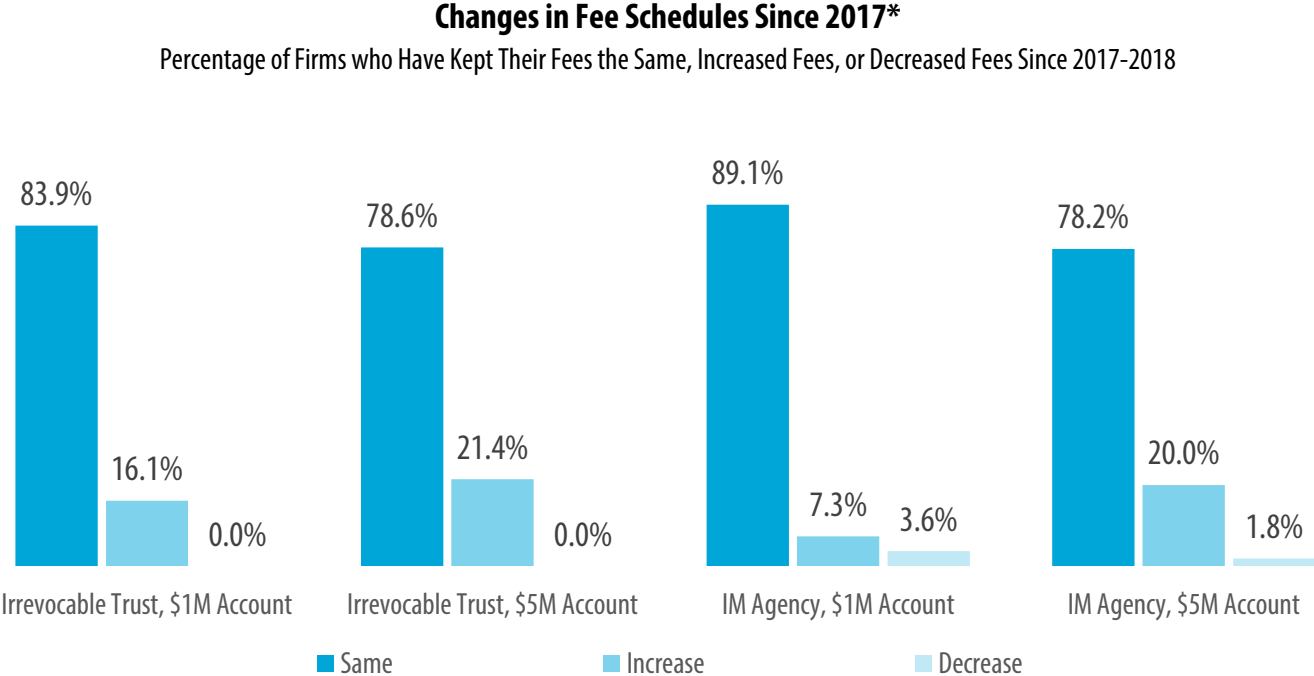


Notes: Fees were obtained via direct solicitation of fee schedules or via an online survey. Asset-based only: firms that selected "occasionally, often or always" to using asset-based fees only as their methodology for charging clients (e.g., as opposed to asset-based fees plus retainer or retainer-only). \*Firms were asked to select the best "firm type" that described their organization. In general, clients for the MFO sample are significantly larger than the RIA sample; the MFOs also offer a broader range of services.



# FEE TRENDS

## SCHEDULE REVISIONS, 2017-2020



# FEE TRENDS

## INVESTMENT MANAGEMENT AND TRUST, 2017-2020

### Blended Fee\* by Account Size, IM Agency, 2017 vs. 2020

Interquartile Range, by Sample Year

|               |                 | 2017  | 2020  | Change |
|---------------|-----------------|-------|-------|--------|
| \$1M Account  | 75th Percentile | 125.0 | 125.0 | 0.0    |
|               | Median          | 110.0 | 110.0 | 0.0    |
|               | 25th Percentile | 100.0 | 100.0 | 0.0    |
| \$5M Account  | 75th Percentile | 92.0  | 93.0  | +1.0   |
|               | Median          | 84.0  | 86.0  | +2.0   |
|               | 25th Percentile | 76.0  | 76.8  | +0.8   |
| \$10M Account | 75th Percentile | 77.0  | 79.0  | +2.0   |
|               | Median          | 69.5  | 70.5  | +1.0   |
|               | 25th Percentile | 65.0  | 65.0  | 0.0    |

### Blended Fee\* by Account Size, Irrevocable Trust, 2017 vs. 2020

Interquartile Range, by Sample Year

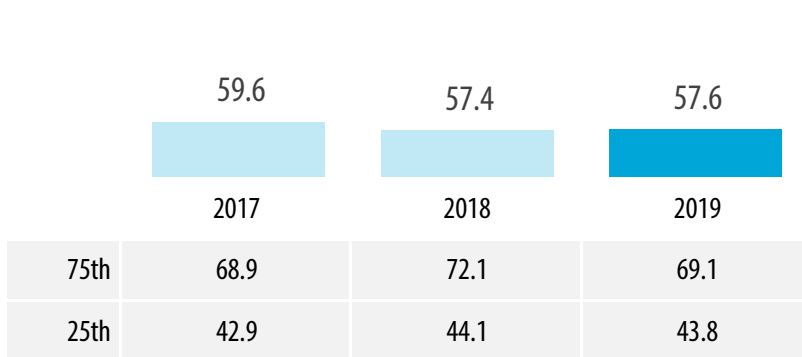
|               |                 | 2017  | 2020  | Change |
|---------------|-----------------|-------|-------|--------|
| \$1M Account  | 75th Percentile | 138.1 | 138.1 | 0.0    |
|               | Median          | 125.0 | 125.0 | 0.0    |
|               | 25th Percentile | 118.5 | 120.0 | +1.5   |
| \$5M Account  | 75th Percentile | 106.5 | 110.3 | +3.8   |
|               | Median          | 96.0  | 97.5  | +1.5   |
|               | 25th Percentile | 87.8  | 90.8  | +3.0   |
| \$10M Account | 75th Percentile | 89.4  | 93.1  | +3.7   |
|               | Median          | 82.0  | 82.0  | 0.0    |
|               | 25th Percentile | 70.4  | 72.5  | +2.1   |

Notes: \*Blended fee: the blend of all asset-based fee tiers for a given account size, including base or flat-dollar fees. The sample only includes firms that participated in the 2017-2018 WISE pricing research.

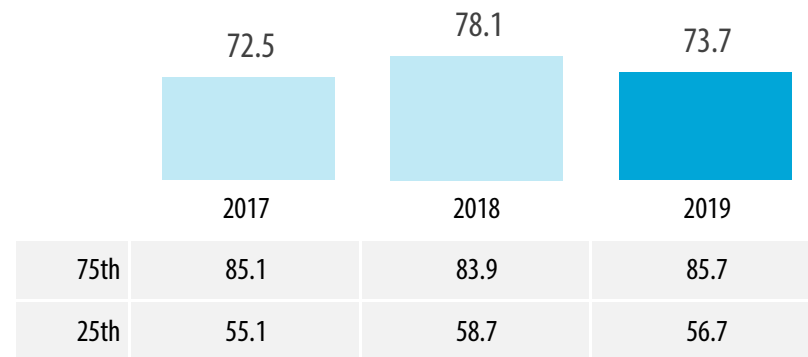
# KEY OUTCOMES

## RETURNS ON ASSETS, 2017-2019

**IM Agency Return on Assets (Median)\***



**Personal Trust Return on Assets (Median)\***



Notes: Personal product includes personal trust, IM agency, and IRA assets and revenue. Return on assets uses a two-year average for assets (e.g., 2019 ROA uses 2019 revenue and the average asset balance between 2018 and 2019). \*Sample is longitudinal and uses the same firms for all four metrics; interquartile data, including medians, are calculated separately for each category.

# 2 PRACTICES

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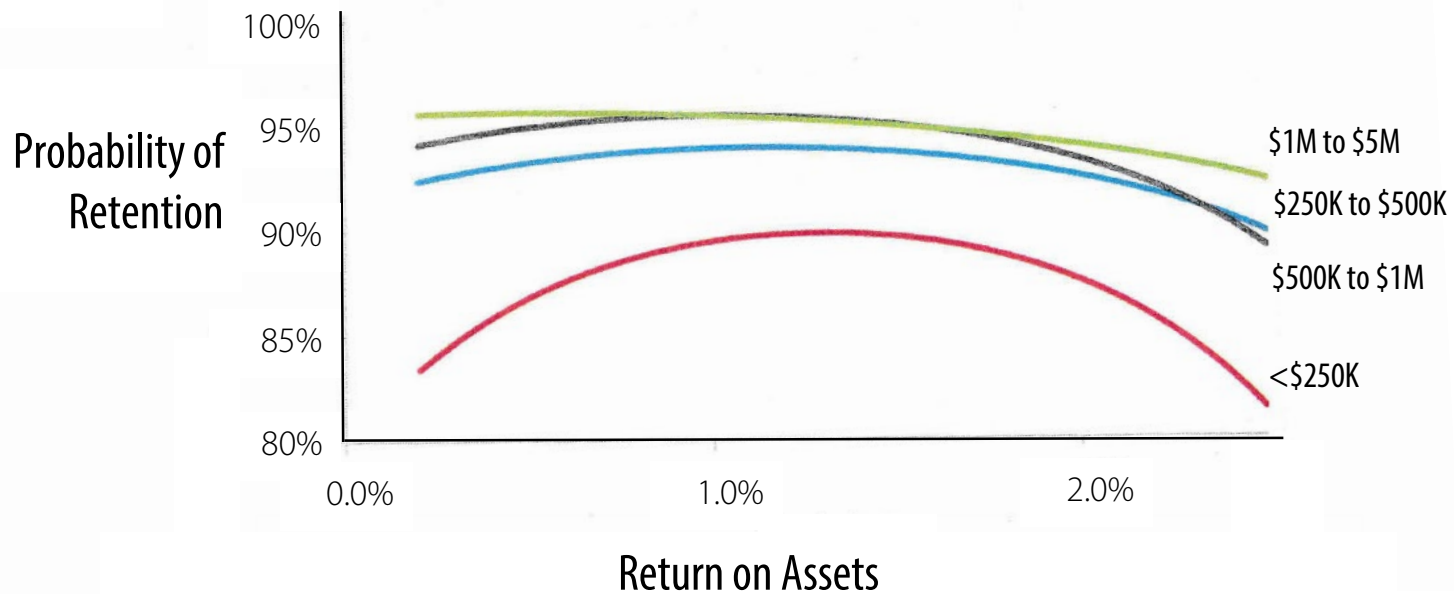


# INTRODUCTION

## IMPROVING RETURNS ON ASSETS: PRACTICES

Observation: Pricing is not as important as we think

### Probability of Retaining Business

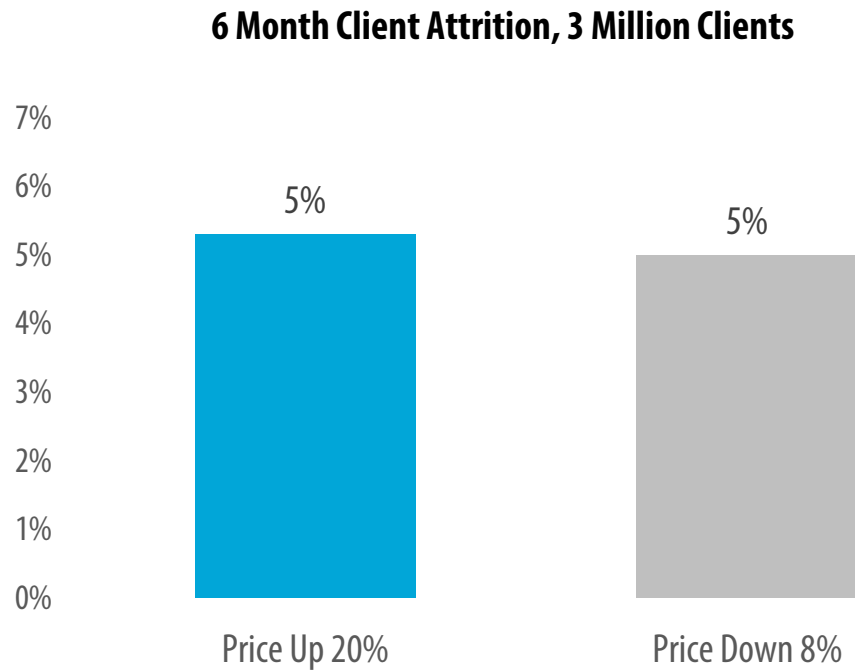


Source: PriceMetrix

# INTRODUCTION

## IMPROVING RETURNS ON ASSETS: PRACTICES

Changing price in complex business services does not stimulate client reactions. "That's a fact Jack", Bill Murray in *Stripes* (1981).

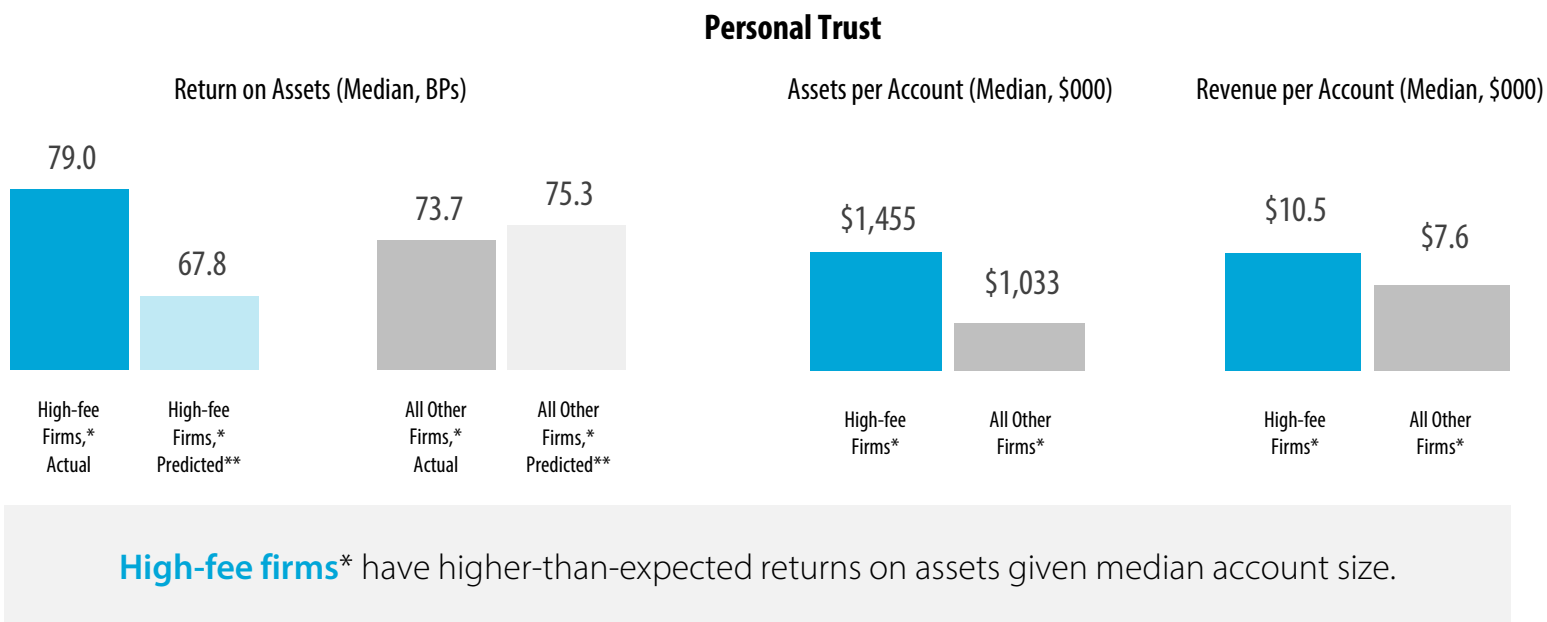


Source: PriceMetrix

# INTRODUCTION

## FEE LEVELS AND RETURNS ON ASSETS

Observation: pricing may not motivate client behavior, however, it is critically important to us



Notes: \*High-fee Firms: firms that price \$1M personal trust and 1M agency accounts in the top quartile for the industry; All Other Firms: excludes high-fee firms. \*\*Predicted return: the return given the median average account size of the group. Note that fees and average account sizes are not the only reason for variations in returns. Other factors include discounting, the distribution of account sizes (e.g., having a few unusually large relationships), asset mix, etc.

# BEST PRACTICES

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Evidence-based Pricing and Discounting Best Practices

1. Actively manage price
2. Maintain price integrity
3. Limit pricing discretion
4. Exercise price power
5. Measure price performance and reward performers
6. Debunk myths that impair pricing culture

#### *Supporting Data and Research*

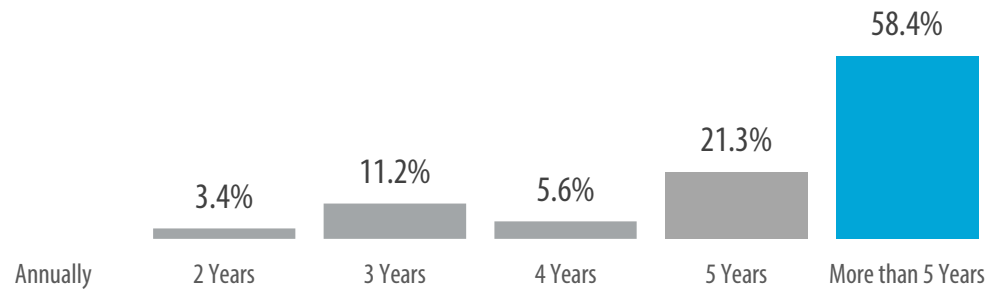
- **PriceMetrix:** Pricing best practices gleaned from 70,000 'pricers' and 12 million customers across several dozen enterprises
- **WISE:** Survey of pricing and discounting practices at 90 banks and trust companies; analysis of fee schedules from 130+ institutions; seven years of asset return data



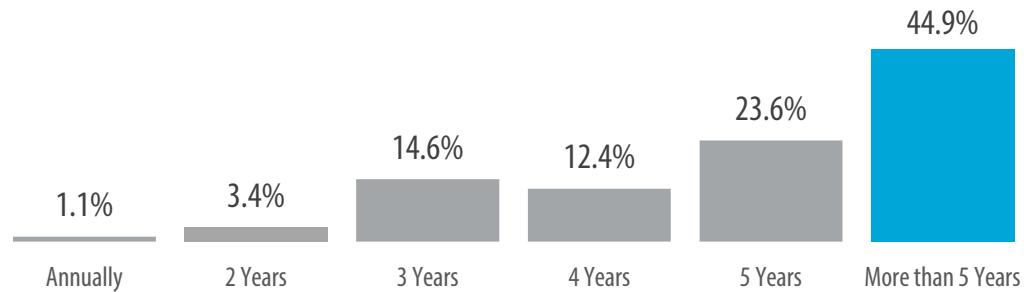
# ACTIVELY MANAGE PRICE

## IMPROVING RETURNS ON ASSETS: PRACTICES

### How Frequently Firms Increase a Typical Client's Fees



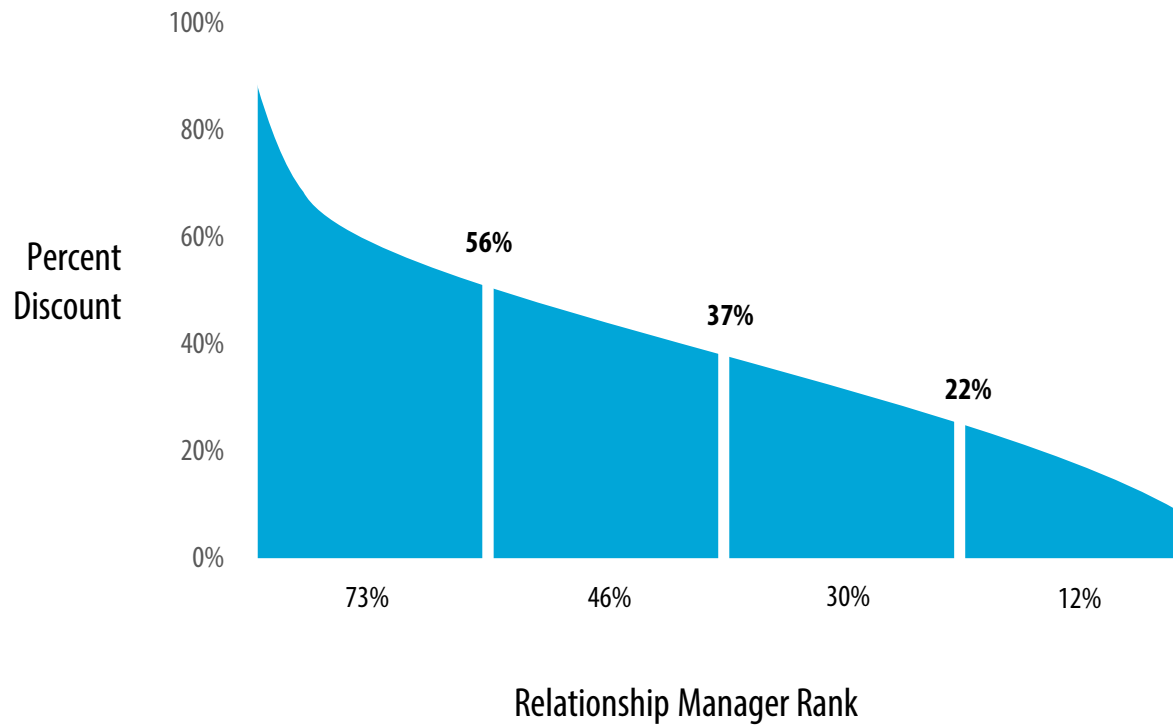
### Frequency of Fee Schedule Revisions



# ACTIVELY MANAGE PRICE

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Discounting Rates by Relationship Manager



Source: PriceMetrix

# ACTIVELY MANAGE PRICE

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- Static prices are unmanaged prices
- Humans are accustomed to price increases
  - They hate surprises
  - They are accepting if they are accompanied by a rationale
  - They naturally expect to be treated as a household not an account
- There are no requirements that FIs set price and leave it for decades while they increase their skills, service levels and digital capabilities
- Averages are not prices, and averages cannot be managed, individual prices can
- In the absence of management one will experience random price distributions
- Across 40 wealth enterprises, I can identify only 3 that have an executive responsible for managing (not approving) price

# ACTIVELY MANAGE PRICE

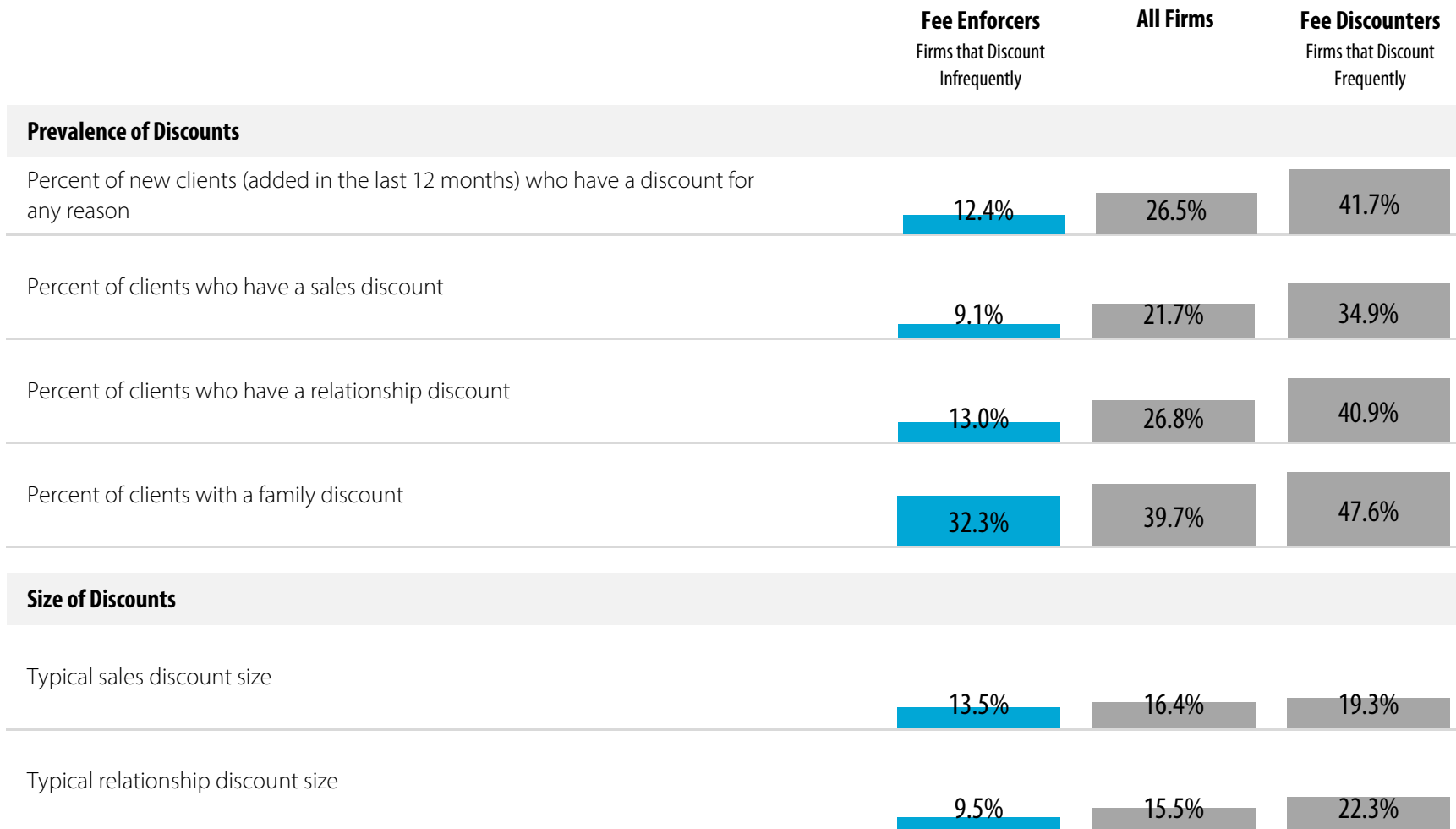
## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- Advanced firms set expectations at relationship inception that price will be revisited and adjusted to reflect improvements in service/offerings
- Adopt a percentage of list price as your discount mechanism, then price increases are automatically reflected into existing relationships
  - Advanced firms stick to list, and agree to a one-time annual incentive credit, where price restores to list at period end
- Avoid fixing a price level (75 bps), rather link to a tiered schedule that increases as client assets decrease, and decreases as they increase
  - Too often a client promises and fails to deliver substantial assets, and a 'fixed' price has been granted, requiring a price discussion which RMs always avoid
- Employ centrally administered exit interviews with departing clients to understand the true reasons – it is most often service failures that RMs will not understandably document

# MAINTAIN PRICE INTEGRITY

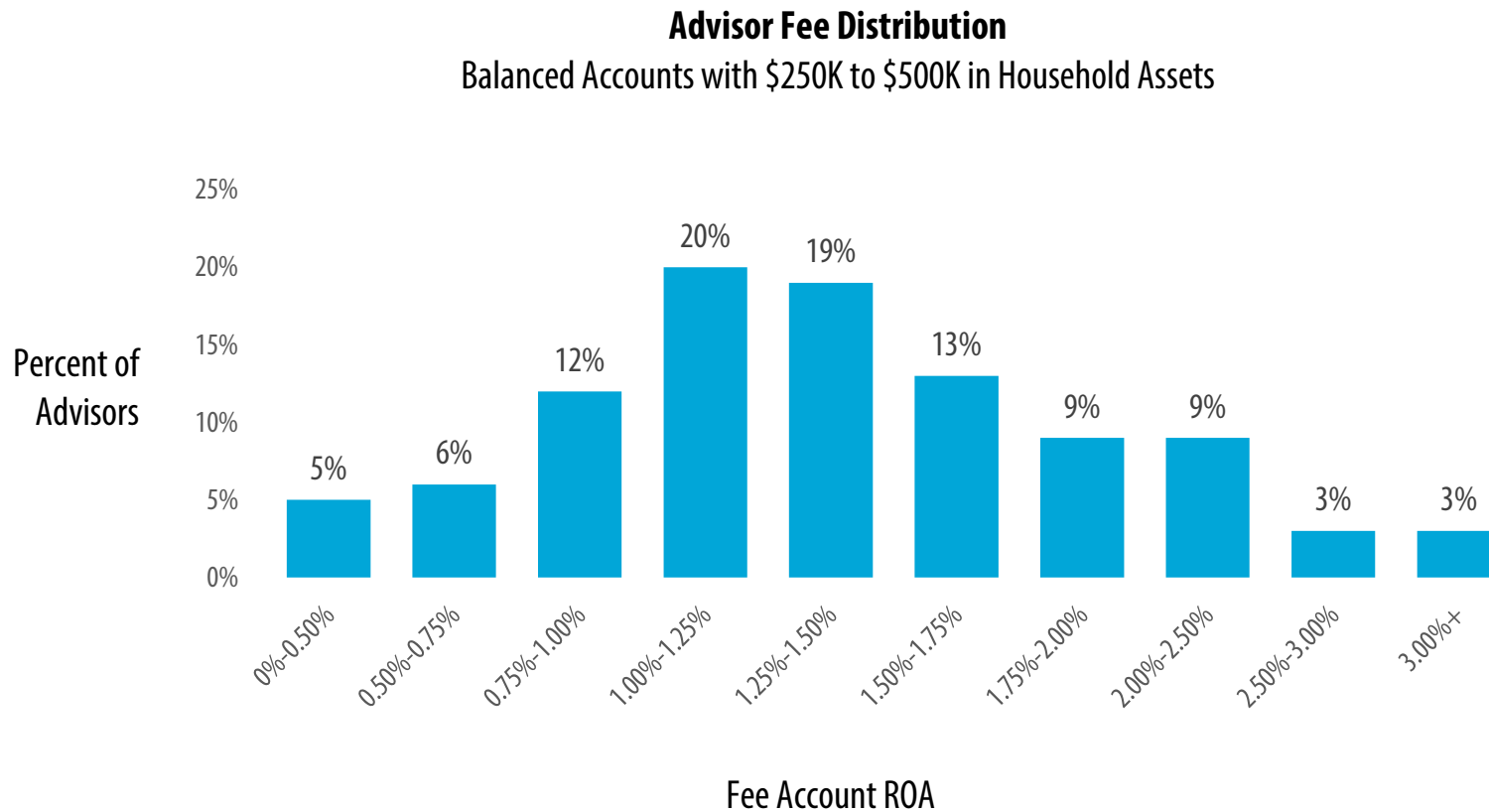
## IMPROVING RETURNS ON ASSETS: PRACTICES



Notes: Fee enforcers: Firms with pricing discipline score above median. Fee discounters: Firms with pricing discipline score below median.

# MAINTAIN PRICE INTEGRITY

## IMPROVING RETURNS ON ASSETS: PRACTICES



Source: PriceMetrix

# MAINTAIN PRICE INTEGRITY

## IMPROVING RETURNS ON ASSETS: PRACTICES

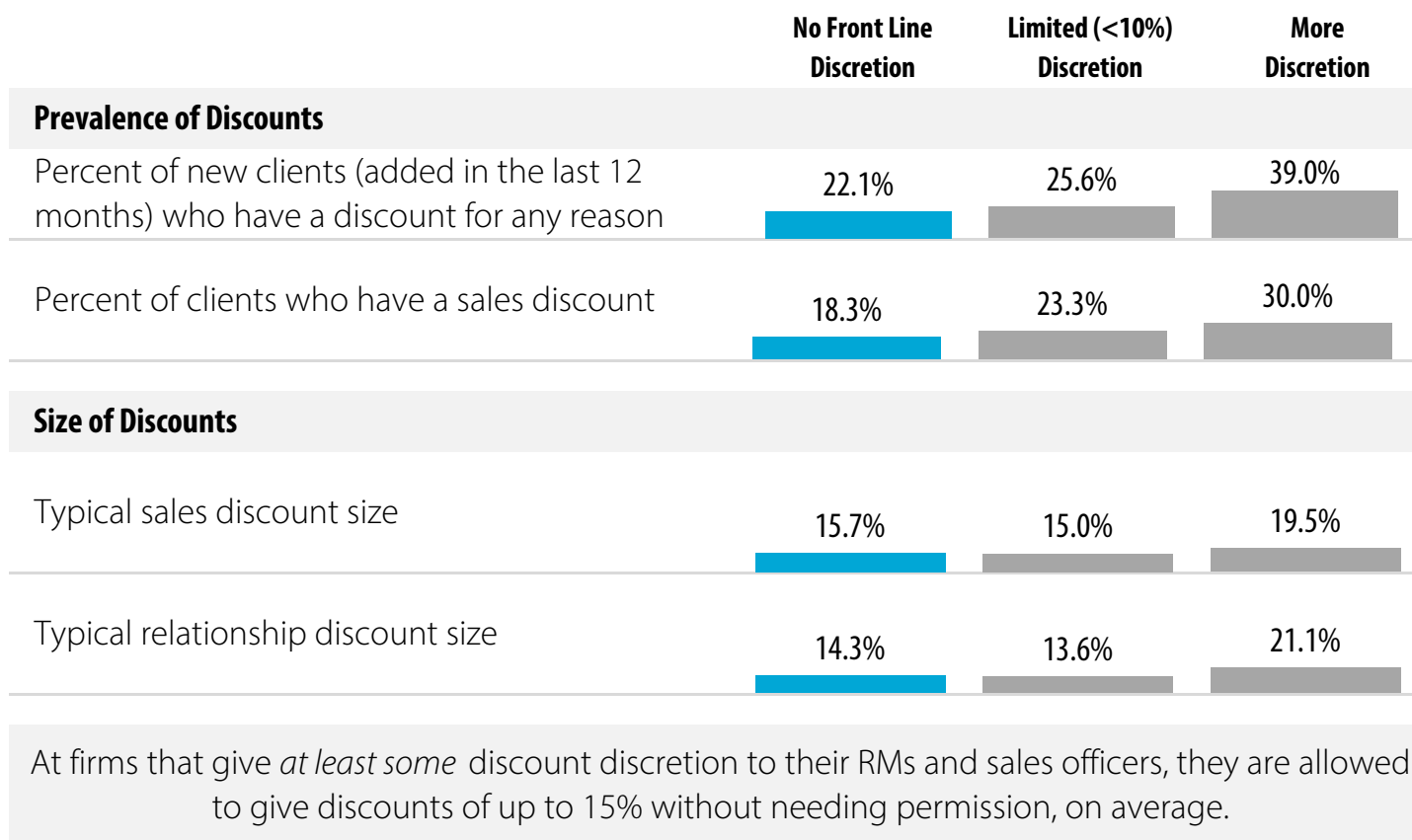
### Observations

- It is critical to your culture to avoid exceptions to win business
- Word 'gets out' – to accountants, lawyers, and fellow RMs
- Be prepared to justify to third parties why some clients received advantaged rates over others
  - Can lead to arguments of discrimination
  - Can lead to arguments of price gouging when list price is achieved
- Price integrity is also critical to supporting pride
- There are no fact-based arguments against the validity of treating similar customers similarly
- Decide on acceptable levels by client/HH segment, and enforce – if a client seeks a lower rate, they are empowered, they can bring additional business
- Removes allowing irrational competitors from imposing chaos – no price guarantee/match

# LIMIT PRICE DISCRETION

## IMPROVING RETURNS ON ASSETS: PRACTICES

Firms who give more discretion to RMs and sales officers to give discounts report giving more discounts in total.





# LIMIT PRICE DISCRETION

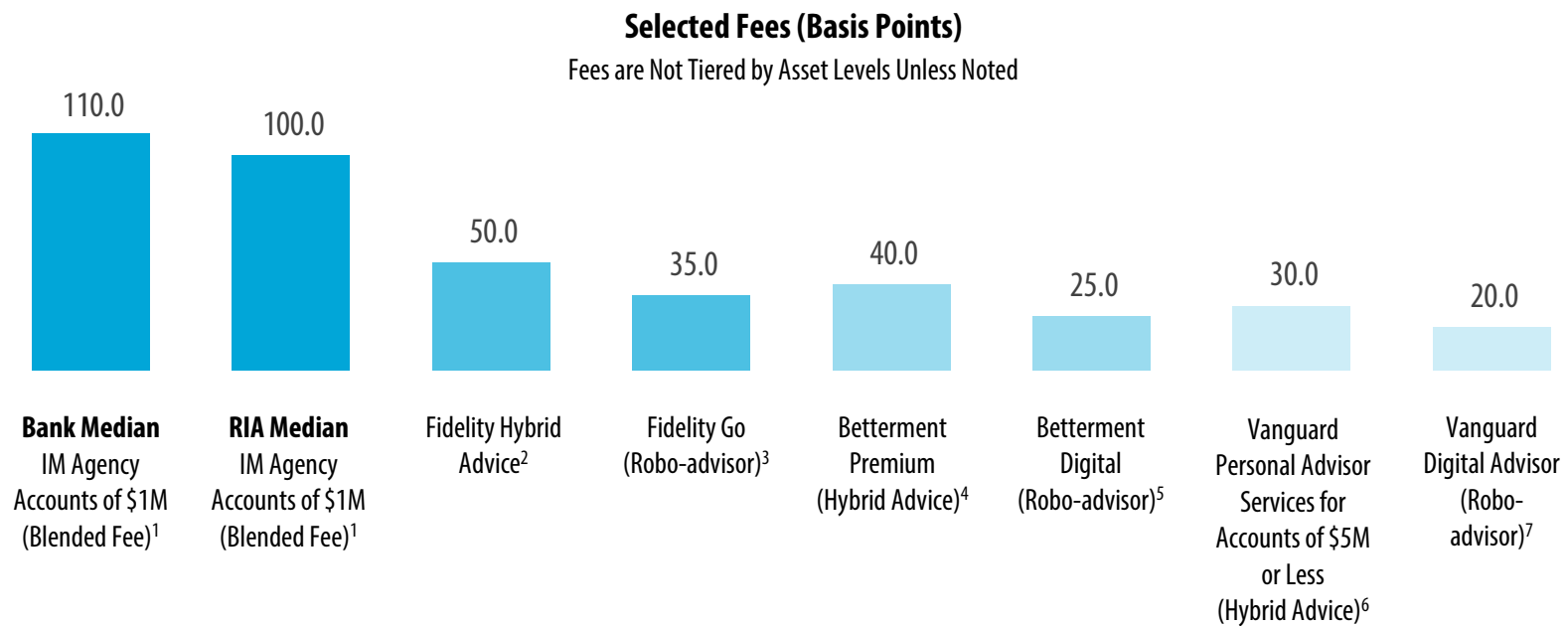
## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- At all levels
- Wide price discretion results in price chaos and a lack of integrity
- Exceptions are grenades without pins, they damage all within a radius
- Most RMs and regional managers lack the information and training to make effective price decisions
- Most firms have asset and revenue goals, but lack price 'realization' goals
- People are eager to trade price to meet asset/new business goals because few firms have reliable profit analytics at the customer level
- Studies show clients like a discount. the degree is less relevant, it's 'are you playing fair?'
- You are better off economically to lose poorly-priced business to a competitor than to book it
- Clients are skilled at misleading and threatening divorce, but rarely act on threats, the switching costs are too high

# EXERCISE PRICE POWER

## IMPROVING RETURNS ON ASSETS: PRACTICES



Notes: <sup>1</sup>Wise Data. <sup>2</sup>Fidelity; \$25K minimum account balance; gross advisory fee; excludes expense ratios. <sup>3</sup>Fidelity; robo-advisor asset-based fee is for accounts with \$50K or more in assets; gross advisory fee; excludes expense ratios. <sup>4</sup>Betterment; \$100K minimum account balance; annual fee based on account balance; premium includes unlimited access to their CFP professionals. <sup>5</sup>Betterment; no minimum account balance; annual fee based on account balance. <sup>6</sup>Vanguard; tiered based on managed assets; \$50K minimum account balance. <sup>7</sup>Vanguard; gross annual fee; digital advisor fee includes expense ratios.

# EXERCISE PRICE POWER

## IMPROVING RETURNS ON ASSETS: PRACTICES

### The Primacy of Pricing Power

“Basically, **the single most important decision in evaluating a business is pricing power**. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by a tenth of a cent, then you’ve got a terrible business.”

*Warren Buffet*

*Testimony to the Financial Crisis Inquiry Commission, 2011*

# EXERCISE PRICE POWER

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- Do you believe there is anything that differentiates you from substitutes in the market?  
You must empower your RMs with that messaging
  - Price power is manifested in the courage to increase price on existing and new customers
  - There is no rule anywhere that says last year's price is this year's
  - It requires strength to tell RMs they can lose business (missing in almost all firms)
    - RMs will do so especially if poorly priced business affects their KPIs and "standing"
  - Without the strength to say "no", you are destined to be a price taker forever
  - If you are concerned about your ability to raise price and not lose business, then you need to reassess the components of your value proposition
- Build the skill, give your field forces confidence through role plays to articulate why your services are more valuable, and why you are not lowering price, video and test them on it
- Top management cannot relent on its willingness to reward employees that let poorly priced business 'go'

# MEASURE PERFORMANCE & REWARD PERFORMERS

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Percent of Firms who Track Discounts for the Overall Business



### Tracking by Employee

- **19.8%** of firms track discounts by relationship manager or sales officer

### Employee Incentives

- **34.4%** of firms count fee increases towards sales goals
- **32.3%** of advisors receive incentive compensation for fee increases
- **17.7%** of firms penalize advisors for providing discounts

# MEASURE PERFORMANCE & REWARD PERFORMERS

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- People develop habits around pricing
- In most every organization, the degree of pricing prowess (getting a good price) varies tremendously, largely because it is not measured and is opaque
- Price performance, percent of scheduled price realized across similar sized customers, should be measured and shared across all employees – with attribution, at least monthly on old and new business
- Review monthly with your field management, ask top performers what they did first, then ask laggards why they made their decisions, and directly address the weaknesses in the statements of the laggards (competitive forces which are anonymous, client asked for it, John did it and got approval, we needed the business.....)
- Laggards will learn from leaders, leaders will feel empowered, and laggards will not want to show up on the bottom of the list repeatedly.
- Contribute to an industry utility that aggregates and shares the data at an atomic level (what I built)
- Share across RM comparisons to show it can be done, and that it is not their specific market, it is them

# DEBUNK MYTHS THAT IMPAIR PRICING CULTURE

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- Myths abound and rise up again even after they are double tapped
- The most common are:
  - 'The market made me do it'
  - 'Discounting gets us more business'
  - 'I discount when markets are bad' – sympathy pricing
  - 'I make it up elsewhere'
  - 'You don't understand, it's different here in [name any] market'
- In the absence of leadership intervention, people will repeatedly take solace in these myths

# DEBUNK MYTHS THAT IMPAIR PRICING CULTURE

## IMPROVING RETURNS ON ASSETS: PRACTICES

### Observations

- Actively use facts and data to dispel complacency and ever regenerating myths
- Myths allow doers to justify their actions to themselves, and they use them to 'snow' their managers/leaders
- Be aware that myths are a crutch, and are emotive for people
- The debunking must be persistent and relentless, because people naturally revert to emotively held beliefs that defend their poor actions
- You cannot give, facts are facts, data has no emotion
- "But its competitive here in New York"
  - No, it is not, there is no evidence, it is well supplied, there is a difference
- This requires your resolve and steadfast leadership





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PRESENTERS

David Lincoln, Partner  
[david.lincoln@wiseinsights.com](mailto:david.lincoln@wiseinsights.com)  
(202) 997-5962

Doug Trott  
[dougtrott54@gmail.com](mailto:dougtrott54@gmail.com)