

PRACTICE POINTS

Transitioning from Commissions to Fees

As advisors seek to better align their interests with those of their clients, we have seen a significant shift from the traditional transaction-based model to a fee-based structure that can support a more comprehensive, holistic approach to wealth management. Data from the 2019 Dimensional Benchmark Study indicates firms that derive more than 50% of their revenue from asset-based fees have 30% higher revenue per client and 46% higher assets per advisor than firms that earn less than 50% of revenue through fees.

Why consider a fee-based model?

Focus on comprehensive planning: A key benefit is shifting from a product-oriented to wealth management approach. Clients may better understand how your fee helps clients pursue their financial goals through both financial planning and product selection.

Better align interests of clients and advisor: A fee-based model may reduce perceived conflicts of interest around investment decisions. Fee-based advisors can emphasize that their compensation does not depend on the investments they recommend, which may reinforce their objectivity with clients.

Create a scalable service model: A fee-based model is substantially more scalable, enabling advisors to earn revenue from servicing existing clients while also spending time on new business development.

Build a more valuable practice: Fee-based practices are often valued by third parties at higher multiples than commission-based firms. The consistency of the income from a fee-based practice often drives valuations calculated by either internal and external buyers.

Re-engage with clients: Changing to a fee-based compensation structure can offer an opportunity to re-engage with clients and develop deeper relationships that focus on long-term client benefits.

How to start the transition

Commit to the change: Establish firm policies for placing new relationships under the fee-based model and target a percentage of existing clients that will make the transition to fee-based services over a given time period.

Adapt your value proposition: Consider what aspects of your firm's value to highlight during and after the transition to fees. What services will be provided to clients and how will you communicate these to clients to substantiate the change in fee structure?

Segment your clients: Identify the clients who would benefit from a fee-based model and who will consider your fees to be appropriate compensation for your efforts.

Develop a script: Prior to moving to a fee model, write a script to detail the changes and explain the reasons why you believe the adjustment will help you better serve clients.

Standardize your investment process: Combining a consistent investment philosophy scalable portfolio implementation process can provide you with more time to focus on business development and client service, while encouraging clients to adopt a more consistent view of investing.

Establish a fee schedule: Following industry standards and your knowledge of clients and the local market, develop a fee schedule that encompasses your firm's range of services and the value of your time and expertise.

Considerations

Short-term revenue reduction: Some advisors may see a reduction in revenue during the transition to fee-based. This reduction is generally short term in nature and a swift adjustment to a fee-based approach can reduce the revenue shortfall period.

Clients who should remain transactional: There may be circumstances in which a fee-based approach does not best address client needs, particularly in smaller relationships and with accounts that require few portfolio transactions.

Service-first focus: As you re-paper accounts, commit to providing a high level of service as a preview of the enhanced services to be delivered in the future.

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