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Charging What You're Worth: Discussing Advisory Fees with Your Clients

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## Charging What You're Worth: Discussing Advisory Fees with Your Clients

By Kris Pettit (<https://blog.ceteraadvisors.com/author/kris-pettit/>) | October 13, 2017

How to price your services and discuss advisory fee increases with your clients



The role of independent financial advisors is evolving from offering advice on investments to delivering comprehensive wealth management. Advisors have been successfully transitioning more of their business from transactional revenue to advisory fee based revenue. Thus, the fee and managed account business has

become a key source of recurring revenue for wealth management advisors, and this trend only continues to grow. The State of Retail Wealth Management 2016 report by PriceMetrix (<https://www.pricemetrix.com/state-of-retail-wealth-management-2016/>) states advisory fee-based programs accounted for 37% of retail assets in 2016, up from 33% in 2015. This accounts for 54% of the industry's overall revenues in 2016.

However, wealth management advisors are earning less in terms of fees as a percentage of assets. Many financial advisors do not charge what they are worth because they:

- Don't appreciate the true value they provide to their clients
- Feel they need to discount their advisory fees to remain competitive
- Have a perceived need to "meet clients in the middle"
- Feel guilty for lack of investment performance

You provide a great deal of value to your clients. Beyond investment management, you likely offer advice about a wide range of topics, especially if you are a wealth management advisor. You act as a sounding board for them, provide your opinion on a number of lifestyle questions and perhaps spend a lot of time doing things for them free of charge.

*You are valuable to your clients and you deserve to be compensated for that value.*

## Determining Your Advisory Fees

Before embarking on any sort of advisory fee increases, consider the impact of these changes on your practice and overall revenue projections. Remember to assess different sources of revenue, whether fee- or commission-based, and evaluate ways you can deliver the best possible advice and service to your clients at a fair and equitable price.

You do not want to be a serial discounter and undersell yourself and your services. Advisory fees will not scare off the type of clients you want to attract—they understand the value in working with a seasoned wealth manager vs. the Wal-Mart

financial advisor.

This is also a great time to explore adding alternative value-add services:

- Providing advice on your clients' employer-sponsored 401(k) plans.
- Offer *consulting contracts* that include a variety of services like financial planning, retirement planning, tax planning, etc. which will allow you to charge a flat fee or an hourly fee.
- Data aggregation that will provide a 360-degree view of a client's assets including ones you do not manage.

The following steps will help you assess the value changing advisory fees will have on your practice while offering approaches you can take when discussing these changes with your clients.

## STEP 1: Standardize Your Advisory Fee Structure

Many times, advisors negotiate their pricing for each situation, which makes it difficult to create scale and efficiencies. Standardizing your advisory fee schedule provides a systematic approach for explaining the price of your services and helps you to maintain a pre-determined level of profitability.

Your broker-dealer is an excellent resource to consult when it comes time to establish/standardize your advisory fee structure. They can provide up-to-date information regarding average fees charged for various advisory programs. While there are numerous pricing strategies you can employ, the exercise below uses your desired minimum income to determine the advisory fees to charge your clients. It is a good exercise to go through, especially if you have not changed your fees in quite some time.

1. Assume 2,000 work hours per year		
1. What do you want your gross earnings to be?	\$	Gross Earnings
2. \$_____Gross / 2,000 Hours	\$	Per Hour
3. How many hours per year will you spend for each client? <i>Consider your client tiers when determining the hours spent servicing their account</i>		Hours per Client
4. \$_____Hour x Hours per client	\$	Revenue per Client
5. What percent will you charge each client?	%	Fee
6. \$_____Revenue per Client / _____% Fee	\$	Minimum Account Size (MAS)
7. 2,000 / _____Hours per Client		Clients
8. Check your work: _____Clients x \$_____MAS = \$_____ x % Fee = \$_____Gross Earnings		

Your goal is ultimately to determine how much your advisory fee *should* be. Some advisors will provide more services to larger clients and thus charge them more, while others will discount the advisory fee for larger account sizes. In addition, you have the flexibility to charge as a percentage of account size, or charge a flat-fee for financial planning/consulting. Consider structuring your advisory fee schedule to coincide with your client tiers or segments. For example, lower tiers/segments require less time to manage than higher tiers/segments and should be charged accordingly.

To give you an idea of industry averages, Cerulli Associates reported the following for 2016. As you can see, there is an inverse relationship between the size of the client's portfolio and the fees charged.

## 2016 Financial Advisor Average Fees



### STEP 2: Review Current Accounts and Their Advisory Fees

Conduct a thorough evaluation of each client account to determine whether an increase in the advisory fee is appropriate. After careful analysis, if you decide an increase is necessary you will want to consider how you might restructure fees for existing accounts, as well as for new, qualified, fee-based accounts.

Remember, you are a professional, just like a CPA or attorney, and the advice you provide to your clients help shape their financial well-being and to achieve critical life goals such as college funding, retirement and charitable giving. Not to mention the cost to provide these services has increased dramatically in recent years due to economic, market and regulatory complexities.

Keep in mind everything you do for your clients:

- Efficiently manage their financial affairs
- Help them bring the focus of their lives from retirement to the present
- Help identify what is important in their lives and prioritize goals
- Motivate them into habitually investing

- And much more

### STEP 3: Prepare for Conversations with Clients

If you confidently explain your value proposition and the reason for the change, it is unlikely your clients will raise any objections. However, you do want to prepare for objections. A popular objection-rebuttal technique, “anticipate and disarm” has proven quite successful.

Compile a list of every objection you have ever heard or anticipate hearing during these conversations. Next, write down several rebuttals for each objection on your list. Develop a range of responses that suits different personality types; some should be logical and statistical-based and some should be story-based—why you are different than the competition, how your fees are more transparent, how you build portfolios, the benefits of using you and your firm, the breadth of your knowledge, the services you provide, etc. Develop scripts surrounding each objection and practice your responses to disarm any objections that may arise.

### STEP 4: Have the Conversation with Your Clients

The best place to start is with “low-hanging fruit,” that is a client with whom you have a great relationship. State your value proposition and communicate that in order for you to continue providing the depth and quality of service they deserve, it is necessary for you to raise your advisory fees. You may want to show them a list of your services, along with the updated advisory fee schedule, so they see a correlation between the two. There may even be services on your list they did not know you provide.

Be sure to include items that are not necessarily on your services list, but still aid in providing your client the best possible experience:

- Staff additions
- New services technology
- Larger office space
- Complying with regulatory changes

The most important factor to remember here is *confidence*. Do not be apologetic; if you do not see it as a negative, your clients likely will not either. Try to be assertive without being defensive. Understand this is what your business needs to continue to provide clients the service they deserve.

You may want to come up with a script ahead of time and practice it with a few people. Below are two options you can use as starting points, but if you choose to use one of them, make sure to personalize it for your practice and each client.

### *Conversation 1:*

*“Mr. and Mrs. Client, as you know, our goal is to provide you with excellent service to help you potentially reach your financial goals and realize your dreams. Our value proposition is ←your value proposition here→. In the past, you have mentioned to me a couple of things we do for you that you find valuable ←list here→. Is that still the case? Excellent.*

*We have also recently added some services to ensure we are doing the very best job for you and providing you with a comprehensive wealth management experience ←show list of services here→. We have also invested in our team, with the addition of Tom and Sherry, and they have become an integral part of providing the support you have come to know and expect from us.*

*In order to continue to provide you with the service you expect and deserve, I am increasing my advisory fees. I have not done so for quite some time; in fact, not since I began doing business 20 years ago. Here is your current advisory fee schedule and here is my new fee schedule.”*

I would recommend stopping here and letting the client weigh in (most clients will sign without an objection). If you want to continue on, say something like *“this is an increase of only 10%, which will allow us to better serve you.”*

### *Conversation 2:*

*“There have been many changes in the industry since we started doing business, including regulatory changes, changes to technology, and changes to the markets and government policies, which have required us to alter how we run our business. One of the things we have done is to invest substantially in research to stay abreast of the market volatility in order to best position your portfolio.*

*We have also set up new technology systems so we can monitor your portfolio more closely, and we have been reallocating assets more frequently to make sure your portfolio aligns with your risk tolerance. These service-drivers have been crucial to our business and have allowed me to focus on you and delivering on our promises.*

*Due to all of all these changes, our business costs have substantially increased in recent years. To keep pace with the changes while continuing to provide you with the excellent service you expect and deserve, I am increasing my advisory fees. I have not done so for quite some time; in fact, not since I began doing business 20 years ago. As you can see, here is your current advisory fee schedule and here is my new fee schedule. This is only an increase of 10%, but will make a significant difference and enable us to continually provide you the excellent service you deserve.”*

## STEP 5: Document Conversations with Your Clients

Document your conversations with your clients, particularly on a potentially sensitive subject such as advisory fees, to ensure you have valuable backup in the future. In addition, it is a good idea to summarize your discussion and any agreed-upon action in an email or letter, and then asking your client to confirm in a reply email or initialed return copy of the letter.

## Charge What You're Worth

Cost is only an issue in absence in value, and you provide a high-value service, not unlike what doctors or dentists provide. If you were thinking of getting some dental work done, you probably would not want to go to the lowest-cost dentist; you would want to go to the best dentist. Your clients want the best advisor and the best service. If you are providing them with high-touch, excellent service, they likely will not question a change in advisory fees. High-net-worth clients understand paying a

premium for the best, and clients who haggle over price are not the type you want in your practice. You're not an average advisor, so be confident, and charge what you're worth.

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