



How to Convert Your Business From Commission to Fee-Based

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Is your business prepared for the new DOL changes?

Why transition your business?

There are a lot of reasons why you should consider making the transition. Here are a few of the most important ones we currently see:

- Proposed Department of Labor changes will likely result in the elimination of 12b-1 fees. 401k and IRA accounts will be lost to fiduciaries.
- Recurring revenue provides more security for you and a higher business value.
- There is less pressure to sell when you meet with a client and you can spend more time focusing on their goals and issues, gathering assets held away from you, and working on referrals.
- Using a third-party manager will allow you to spend more time with clients, building the business, and outside the office.
- Fee-based advisory services aligns you more with your clients' interests.

How do you make the transition?

Develop a value proposition

The value proposition is the foundation of the entire sale. Why do clients work with you? What does an advisory/fiduciary relationship offer the client that they are not currently getting from you? We believe there are a number of ways the advisory relationship adds value to clients:

- Investment discretion allows for more active management in volatile financial markets.
- Charging a fee based on the percentage of assets puts the advisor's interests in better alignment with the client's interest.
- The advisor can offer a deeper, more extensive set of services, focusing on the whole financial picture rather than one-off ideas.
- It allows you to act openly and gives you flexibility to solely focus on making investment decisions instead of worrying about incurring fees.

Determine a services menu

List the services you will provide to clients as a fee-based advisor. Consider building a matrix that offers different levels of service based on pricing and/or asset size. You may also want to contrast this with what services you currently do for them. This should show how much more you are doing for the client.



Develop a plan of action

Segregate clients and prospects based on how easy you expect the sale to be and services menu you've designed. A simple easy, medium, and hard will suffice. Then rank them by size. Once you have all clients assigned to a category, figure out how much time each week you can devote to transition work and how long each client will take. Commit to a set number of meetings each week.

Write your story

Once you have a plan, you need to figure out exactly how you will communicate the change to clients. Here are some starter ideas:

- “We’ve been working together for X years and I know I’ve done well by you and earned your trust. I’d like to take our partnership/relationship to the next level and move from transactional-based products to a more advice- and discretion-based. This works because (*add your firm’s value proposition here*).”
- “With investment discretion, we can be more nimble in getting ahead of market risks and taking advantage of opportunities that develop. We can also rebalance accounts more frequently and stay closer to our target allocations without having to get your approval for every trade.”
- “We’ve decided to partner with third-party investment managers to sub-advise our portfolios. This way, we can hire managers that are experts in each asset class and I can focus more on working with you on planning and advising you on whatever needs come up.”

Execute the plan

Once you have a plan of attack in place, we think it is best to start with the clients you’ve labeled as easy. We also suggest practicing on smaller clients and any inactive assets you might have. As you convert those easy accounts, move onto larger and more difficult accounts, learning as you go. This technique will allow you to be completely comfortable and experienced with your pitch before you go on to your most important clients.

Learn and adjust to questions and concerns

No client will sign on the dotted line without questions. Others may have concerns or not fully understand what it is that you are proposing. That is to be expected. We suggest having a response in mind to any questions or concerns that you think may pop up in the course of transition meetings. That being said, there are sure to be some that you didn’t think of in advance. Do your best to answer the question in the moment. If need be, tell them you will consider their question and get back to them. Regardless of how you handle the question or concern the first time, we suggest you consider crafting a more thoughtful response after the meeting so that you are better prepared for future meetings. People won’t mind if you do not know an answer to a question up front if you get back to them in a timely matter with a good answer.



Dealing with objections and questions

Here are some issues and questions that have come up with other advisors we've worked with, along with a suggested response to each one.

1. "Didn't you already have my best interest in mind?"

Of course we did but switching to this fee structure directly aligns my compensation to growing your assets. My compensation will now be directly correlated to how your account is performing.

2. "Why would I do this now?"

Market volatility has been on the rise lately and we are about seven years into one of the largest economic explosions we have seen in recorded history. Having discretion on your assets gives us the ability to act quicker in times of market fluctuations if we see material changes in the market.

3. "Why didn't you try to switch me over before?"

As you may know, this is a rapidly changing industry. We are doing things today that weren't imaginable 10 years ago. These technological changes have made it possible to pay a "wrap fee", or a fixed rate, to trade instead of costs per trade. These options are now cheaper and will allow you to incur less fees.

Conclusion

At Progressive Advisory Solutions, we are willing to help you through the growing pains of making the transition to a fee based structure. As you do your research on partners to help you switch, we think you will find that Progressive Advisory Solutions stands alone in its dedication and ability to help advisors achieve their goals. Our team of specialists will help you develop your transition plan and segregate your client base. Additionally, we can assist you in crafting your message. We can even help you create a PowerPoint presentation highlighting your value proposition and service menu to easily show how a switch to a fee-based structure will help you serve your clients better.

At the end of the day, making these changes will better align you with your client's interests as well as better positioning your client's portfolios. No one knows what the future holds, but we believe that by making these changes now, it will put you in a good position to handle future regulatory changes. It can also give you a more sellable business going into retirement. This change will give you more flexibility and allow you to offer a higher level of service to clients.