

WHAT FEE COMPRESSION? ADVISORS FIND SUCCESS RAISING THEIR PRICES

05/10/2018 Originally Published by Tracey Longo, Financial Advisor Magazine

Headlines about fee compression may be true for some advisors and their vendors, but the reality is that a growing number of investment advisors are successfully increasing client fees from 10 to 25 basis points, industry insiders say.

"We have seen many clients increase their fees, in contrast to racing to be the lowest-cost wealth manager," said **Carolyn Armitage**, managing director of **ECHELON Partners**, the leading valuation firm in the country for advisory firms. "When you lower your prices, it can imply that you're really not providing all the services you promised or that you're not that good."

"Generally, fee increases are 25 basis points or less, which is significant when you consider the totality," said Armitage, who creates strategic growth plans for a variety of firms who are new, have growing pains or have hit a plateau, as well as those who want to grow.

What's the best way to justify a fee increase? Demonstrate and clearly communicate value, she said. "Pricing increases are often forgotten as a growth strategy. When you provide more services to your clients, you can charge more," said Armitage.

What type of firm is successfully increasing fees? Not surprisingly, it is often firms that offer comprehensive financial planning and cater to clients who are moderately wealthy or of high net worth, with at least \$1 million in investible assets. "If you're offering more services than other advisors, clients are a little less price conscious because they're getting more value," Armitage said.

The trend in the advisory industry away from one-person shops and toward larger enterprise firms is also aiding fee increases. "A larger firm is able to charge more and offer more services, including a team for the client to work with, as opposed to one advisor in an office with an admin," Armitage said. "Simply put, professionally run organizations that offer in-depth wealth and financial planning have the ability to charge more and be more profitable."

BNY Mellon Pershing, which serves some of the largest and most profitable advisor firms in the country, is also seeing more advisors successfully raise fees.

"Our firms have been very successful at increasing prices and most firms tell us, 'We should have done this a long time ago,'" Gabriel Garcia, managing director of Pershing's Advisor Solutions, told Financial Advisor magazine during the firm's recent RIA Symposium outside Washington, D.C.

BNY Mellon Pershing has 750 RIA clients representing \$600 billion total assets under management, or about \$800 million in AUM per firm.

Industry-wide, advisors fees average 1 percent of client assets under management, but can range from .75 percent to 1.25 percent, according to industry studies. Of course, it depends on a firm's niche. For instance, ultra-high-net-worth clients are paying advisors an average of 50 to 60 basis points.

The average Pershing advisor with \$800 million in AUM that institutes a 25-basis-point increase in fees could add \$2 million to their bottom line in year one.

Garcia said the perception that the advisor industry is under pricing pressure is somewhat overblown. "Many in the advisor supply chain—including asset managers, issuers, custodians and technology firms—are experiencing pricing pressures, but advisors' fees have shown signs of stability and even growth," she said.

"We continue to expand and add value-added services and pricing stability at the top line. As a result, two-thirds of our advisors who had price changes actually increased their prices," Garcia said.

Differentiators matter a great deal when it comes to advisor pricing. For example, what is your firm doing that can't be replicated by competing advisors or retail providers? "The most profitable firms go really deep, offering valuable services like tax advice, business planning, business owner succession planning," said Benjamin Harris, managing director of Advisors Solutions at BNY Mellon Pershing.

The average household's assets on Pershing's advisor platform is \$6 million. "The kinds of services we are talking about can not be delivered by a robo-advisor and are not highly scalable," Harris said. "Wealthy individuals are willing to pay more for advice that puts them in a better place."

In general, wealth management-oriented practices that serve clients on a multitude of levels tend to be the most successful at increasing fees, while smaller firms that do only asset management—especially for clients at the \$500,000 AUM level or lower—are likely to feel pricing pressure, industry insiders said.

At the end of the day, however, all advisors say they want to grow and become more profitable, Armitage said. Organic growth that comes from strategies such as comprehensive financial planning can help firms mean more to clients and get more wallet share. "These clients are usually stickier and they're more tolerant of price increases," she said.

Breaking out the types of fees a firm charges—including separate line items for financial planning and performance-based fees—is also a way to add to a firm's bottom-line revenues. Armitage said she is happy to see more and more advisors breaking out fees for financial planning or performance as a way to re-enforce the value they are adding, rather than just rolling up the services into a single AUM fee.

Performance-based fees or success fees, in vogue 20-plus years ago, are now making a resurgence and are often predicated on a firm beating a certain, pre-determined performance threshold, or hurdle rate, she said. "Added performance can help the sandwich generation, for instance, pay for college and graduate school for their children, while giving them the assets they need to assist aging parents. There is a true value in outperforming and charging for it is reasonable," Armitage said.

While many advisors don't use performance-based fees yet—after being told for years not to peg their value to performance—there is now a separate line item for performance-based fees in the new Form ADV.

So, what do you tell clients if you increase fees? Armitage said she still tells advisors to have one-on-one conversations with clients to ensure they understand the increase and to get new client agreements signed. "This can go a long way toward explaining the services and benefits you're providing, so clients can fully appreciate the value you're adding," she said.
