



MDRT

The Premier Association of
Financial Professionals®

MDRT Minute

Incorporate Fees Without Alienating Clients

There is probably no more powerful trend in the financial advisory industry today than the momentum toward transitioning from a transaction or commission-based structure to a fee-based one. Research has shown clients are generally better served and advisors' practices become more productive as a result of that change. Many advisors hesitate to make the switch because they are concerned they will lose clients. However, most clients will embrace the arrangement if they realize the value they receive from a fee-based relationship with you exceeds their perception of what that relationship costs monetarily.

Getting your value proposition right

It is difficult to stand above the crowd when everyone around you is offering similar products and services — ones consumers have largely reduced to commodity status. To be effective, your value proposition must focus on the personal and emotional benefits clients will enjoy from their relationship with you, not the products and services you offer.

Communicating your value proposition

Once you have identified your value proposition, you must communicate it in a way that is: a) Empathetic — demonstrates that you have put yourself in the client's shoes; b) Specific — details exactly how the structure will work; c) Compelling — makes a convincing case in favor of the concept.

Handling objections

Invariably, you're going to have clients who bring up objections. Bear in mind that most objections are simply the client's way of saying, "I need more information," so treat them as requests for additional data to support your recommendations. By explaining the reasons for the transition and the advantages of fee-based advice, you will be able to get them to embrace the new model.

Advantages of fees versus commissions

1. *Unbiased advice.* Clients will feel less intimidated and more confident that you are working as a team on their behalf.
2. *Broader product range.* Clients will be reassured that they have the whole world of product possibilities available to them — you can recommend what you think is best for them overall, not just what's on the limited list of products that pay you.
3. *Consistent advice under all conditions.* Clients gain peace of mind knowing you're looking after their affairs regardless of what is happening in the world.
4. *Potential cost savings.* Clients will potentially enjoy the satisfaction of lower costs because you'll have more flexibility using lower fee products.
5. *More professional approach.* Clients will sense they are being treated with respect and in a more professional way.
6. *More client-centric.* Clients will feel their time is well-spent as a result of a more consistent, efficient and effective experience.
7. *Easier liaison with other professionals.* Clients will gain confidence knowing a professional team of specialists is managing their total needs.
8. *Potential tax reduction.* Clients will be euphoric if the government is paying part of your fees.
9. *Shared risk.* Clients will appreciate that the advisor has the same motivation as they do to improve their financial well-being.
10. *Bragging rights.* Early adopter clients will get an ego boost knowing they are at the forefront of an industry trend.

How much should I charge?

There are a number of variables you should consider when determining an appropriate fee structure that treats both you and your clients fairly. Review factors such as staff costs, overhead, products and services, your service commitment, your target market and how your annual compensation would look broken down into an hourly rate.

There is no need to approach the transition of a practice from commissions to fee-based with anything other than optimism and confidence. If you believe it is the right thing to do, those clients with whom you have valued, mutually respectful relationships will know you have been thoughtful and will sense your enthusiasm. They will understand you are proposing a win-win arrangement and, rather than feeling alienated, they'll feel aligned and appreciative.

George Hartman is CEO of Market Logics, Inc., a firm that provides solutions to organizations and individuals looking to take their business to new levels. Purchase his entire 2011 Annual Meeting presentation at <http://www.mdrtpowercenter.org/>.