Step Up to a Fee-Based Model

How You Can Help Boost Your Business in a New Client World

Client trends point to a desire for more than investment guidance. Ask yourself: Are your clients reaching out just for investment help or are they increasingly looking for long-term planning? For more and more advisors, adopting a fee-based model may better align with the holistic approach and added value their clients are asking for: help in reaching their long-term goals.

Scaling your business may be easier and more cost-effective with a fee-based model. With fee-based revenues and assets rising, moving to a fee-based structure when it is appropriate for your clients may offer opportunity for more predictable income over the long term, and allow you to better plan your growth path.

Smart planning may help you efficiently manage your change. Fundamental changes to your business model require necessary investments of extra time and resources. However, smart planning for the effective implementation of technology and client transition experience can make the move easier.

A transition from a transaction-based to an advisory business model requires careful preparation and planning. The information herein is general in nature, is not individualized and may not be inclusive of everything a firm should consider in this type of planning decision. The term "advisor" is used generally and broadly throughout this paper when referring to financial professionals who may be considering changes to their business models or practices, however some of the concepts may not be applicable to all firms. This information is not meant to address standards or requirements that may apply to you or your firm under applicable laws, rules, and regulations of any relevant jurisdiction, or the rules of any regulatory authority or self-regulatory organization.

The information on the following pages is for illustrative purposes only and is not intended to serve as legal, tax, or compliance advice. We encourage you to consult your legal and compliance resources as you seek to implement any form of a business change. The views or opinions of the contributors interviewed or quoted herein do not necessarily reflect those of Fidelity Investments.

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Introduction: Why consider stepping up to a fee-based model?

> "Mindset is critical in preparing for a transition to a fee-based model. First, you need to do what is in the best interests of clients in this new world. Then, you need to fully commit to the processes, policies, and tools, to make it a success for everyone."
>
> — Mark Rapoza, Financial Advisor, Barrett & Company

No matter what compensation model you currently employ, your long-term success often depends on one factor: making your clients happy. So, it should come as no surprise that Fidelity believes firms that remain fully committed to putting clients' needs first have a better chance of success over the long run.

But in today's changing environment, what does a client-centric firm look like? Fidelity anticipates that, sooner or later, advisors will be operating largely as fiduciaries, with broker-dealers and registered investment advisors (RIAs) converging. What's more, if your pricing is not fully transparent, clients may consider moving to another provider.

Why consider making the fee-based switch?

The days of the advisor as stock picker are vanishing. From 2014 to 2017, the percentage of revenue that advisors generated from fees rose steadily, as did the percentage of assets and households in fee-based accounts.

GROWTH IN FEE-BASED REVENUES

	2014	2015	2016	2017
Fee-Based Revenue	46%	49%	54%	63%
Fee-Based Assets	31%	33%	37%	46%
Percentage of Households with Fee Accounts	29%	31%	36%	46%

Source: *The State of Retail Wealth Management, 7th Annual Report,* PriceMetrix, 2018.

Those trends are likely to continue for a number of reasons:

- **Client changes:** More and more, clients want help answering important life questions and meeting goals, such as paying for their children's education or having the retirement they envision. By focusing on goal achievement and offering holistic financial planning, the advisor's services are less likely to be valued by one factor: the performance of investments.
- **Product changes:** Increasingly, today's product solutions, such as managed accounts, do not require buying and selling on the part of advisors, making it critical that they find other ways to add value—and earn income.

Clearly, the tide is flowing toward fee-based models. For advisors transitioning to this compensation structure, the upside potential is high. Beyond adding value that clients are requesting, advisors are more likely to experience more predictable income going forward. Not only does this help advisors as they attempt to scale their business, it also has the potential to make their business more valuable in the marketplace.

In the following pages, we'll share stories from three advisors who are in the process of transitioning or who have recently transitioned to a fee-based model, showcasing how advisors came to the decision to change their compensation model and certain factors they considered to help make the changes a success.

ADVISORS INTERVIEWED	HOME OFFICE PROFESSIONAL INTERVIEWED
Mike Lickiss *Financial Advisor* Foundation Financial Group* Alamo, CA **Mark Rapoza** *Financial Advisor* Barrett & Company Providence, RI **Mark Congdon** *Founder and Senior Partner* The Horizon Group West Henrietta, NY	**Greg Kalosieh** *Vice President of Sales and Marketing* Securities Service Network Knoxville, TN

Interviews were conducted during the period of September 17, 2016–October 1, 2016, and in April 2019 by Excella, Inc., an independent marketing firm. The third-party service providers listed are independent companies and are not affiliated with Fidelity Investments. Listing them does not suggest a recommendation or endorsement by Fidelity Investments.

The following insights are meant to be for illustrative purposes only.

The opinions expressed are those of the advisors interviewed and do not necessarily reflect those of Fidelity Investments. These advisors reported that they rely on the corporate RIA of their broker-dealer.

Determine if a change is right for you and your clients

> "More and more of my clients want to sit and have planning-type discussions—which I find historically more difficult when operating under a transactional model."
>
> — Mark Rapoza, Financial Advisor, Barrett & Company

In any business, professionals can be resistant to change—and sometimes for good reason: change can mean a commitment of extra time and resources. And who has those to spare?

Shifting from commission-based revenue to a fee-based revenue model may be no different. For the featured advisors, however, the extra commitment proved well worth it. In each case, the change to a fee-based model required the advisors to take an honest and in-depth look at their business and operating environment and consider what was best for their clients. This is particularly true in light of their clients' increased need for holistic advice and guidance, as well as the changing regulatory environment.

Look closely at the needs of your clients

One of the first ways to assess the right compensation model for your firm is to commit to a basic tenet of great advisory work: listen to your clients.

For Mark Rapoza, a financial advisor at Providence, Rhode Island–based Barrett & Company, the questions his clients were asking proved to be a telltale sign. "In the last three to four years," notes Rapoza, whose personal practice serves more than 300 families, "prospective and existing clients have repeatedly asked me point-blank, 'Are you a fiduciary?' Hearing that time and again meant it was clearly an important issue for those considering my services."

Rapoza also observed a change in the financial topics that clients wanted to discuss with him, with more clients preferring to sit down for planning sessions. "Planning discussions are much deeper when working in a fee-based model."

At the same time, says Rapoza, there's simply less client demand and fewer conversations around buying and selling securities. "Clients rarely today call in asking 'What particular stock or fund do you like?' or 'What idea do you have for me?'" he says. "Instead, clients are repeatedly asking me, 'Am I going to have enough to retire?' and 'Am I meeting my goals?' They're asking big and important financial questions, which are more conducive to address with a fee-based model."

This sea change in client interest forced Rapoza to a realization: if he wasn't meeting the new desired needs of clients, he risked losing them. In the end, that made the decision an easy one—one that was in the best interest of his clients and his business' long-term health. Relying on his firm's corporate RIA, he began the process of transitioning clients to a fee-based model.

*DBA Foundation Financial Group. Advisory services through Resource Investment Architects, Inc.

"Today," says Rapoza, "my client conversations and work increasingly focus on what's important for my clients over the next 10–20 years, rather than being a stock picker."

Mike Lickiss of Alamo, California–based Foundation Financial Group had two different reasons for stepping up to a fee-based model. First, he wanted to offer a larger variety of investment options. And second, he wanted to deliver better overall service to meet clients' needs. Mind you, Lickiss's clients weren't complaining about these two areas; he simply felt he could do more for them.

"With a fee-based practice," Lickiss points out, "I saw the potential to gain access to a wide range of investment solutions, which hopefully would translate into better service for my clients' needs. I had been relying mainly on mutual funds from one or two fund companies and that was limiting for both me and my clients."

> "You need to wake up in the morning 100% convinced that a fee-based approach is a better way of doing business for clients. If you have that conviction, it makes it so easy to get up in the morning to start the conversion of clients."
>
> — Mark Congdon, Founder and Senior Partner, The Horizon Group

Align your practice with your core values

Undoubtedly, the potential of a new DOL Fiduciary Rule several years ago caught the attention of many advisors. Even those who felt good about how they served clients believed it was time to further evolve their practice.

For instance, take Mark Congdon, founder and partner at The Horizon Group in West Henrietta, New York. As a member of a prominent trade organization, Congdon had early insight into changes that were potentially coming, well before the changes began making headlines. For him, these changes meant taking additional steps to further align his practice with his values.

At the time, Congdon felt he needed to get ahead of a changing industry, so he embraced the best parts of a new world of investment advice. Immediately, Congdon began writing a business plan for the move. First, he had to determine if he was going to set up his own RIA or use a broker-dealer's corporate RIA.

"I did a substantial amount of research to answer this question," says Congdon, "and I decided that I wanted to switch broker-dealers and rely on the new firm's corporate RIA." As a next step, he developed a checklist of what he was looking for in a new broker-dealer, beyond whether they provided a corporate RIA to rely on.

"I knew that making the transition was going to require commitment and effort by me and my team," notes Congdon. "While I already felt good about how we served clients, I also knew it was important for us to fully embrace the positive aspects of a changing regulatory environment—namely, increased transparency for our clients."

"While the DOL Rule ultimately went away, adopting a fee-based approach is simply where the industry is going," says Congdon, "and I'm happy to say that it is more in line with my core values."

ACTIONS TO CONSIDER

As you consider whether stepping up to a fee-based model is right for you and your clients, you may want to think about these steps:

Survey the landscape and client needs. Are your clients asking more about goal achievement versus the daily ups and downs of their accounts? Are they asking you to explain how you charge for services? As you consider your clients' needs, investigate the ways you can add greater value to your relationships by stepping up to a fee-based model.

Evaluate your long-term goals. Think about where you want to be in five and 10 years and how you can scale your business to achieve those goals. As part of your evaluation, also consider how a move to a fee-based practice may align with your personal goals, values, and priorities.

Assess your level of commitment to a potential transition. A shift in your mindset and a steadfast commitment are critical to making the transition to a fee-based model. Ask yourself: Are you willing to undertake the work required to make the change, such as enhancing your offering, investing in new resources and technology, and establishing policies and procedures to support the change? Your response to this question may guide you in your decision-making process.

Define an executable new model

> "There's only so much time in the day, which means advisors need to consider the trade-offs when determining their investment management approach and overall practice model."
>
> — Greg Kalosieh, Vice President of Sales and Marketing, Securities Service Network, Inc.

When transitioning to a fee-based model, you'll have some important business issues to flesh out, including:

- How you plan to offer investment management
- Your approach to planning, and any other services
- Pricing
- If and how you plan to change your client experience
- How technology can provide ways to increase productivity and afford scale

But don't let that scare you off. The advisors featured in this paper, each facing unique circumstances, can help show you how they tackled their big issues, refining their offerings and addressing gaps for serving clients, as they moved to a fee-based approach.

Consider your existing investment management capabilities and differentiators

In the eyes of Greg Kalosieh, vice president of sales and marketing for Knoxville, Tennessee–based Securities Service Network, Inc., what new fee-based advisors decide to offer for investment management often boils down to how they want to spend their time.

"What's important to recognize," Kalosieh points out, "is that adopting an approach that requires a significant amount of time will likely mean less time for other activities."

To that end, says Kalosieh, every minute advisors spend watching the markets, reading research reports, and evaluating specific investments, is time they are not spending strengthening existing relationships or engaging in other marketing campaigns that might yield additional assets.

“Some firms have made the decision that they’d rather spend most of their time on investment management instead of building relationships and gathering assets,” says Kalosieh. “No one answer is going to be appropriate for every advisor.”

Mark Rapoza of Barrett & Company developed clear criteria for attacking this issue: For him to fulfill his value proposition of providing comprehensive financial planning, he needed an investment management approach that provided flexibility, a wide range of investment choice, and the ability to efficiently scale his business.

After exploring a number of options, he chose a managed accounts platform that offers, among other things, billing, reporting, and rebalancing capabilities. “The solution we chose not only provides us with features that help us efficiently manage our clients’ investments,” says Rapoza, “it offers model portfolio choices and risk guardrails, which tell us when client accounts have assumed risk that exceeds the client’s agreed-upon comfort level.”

Mark Congdon of The Horizon Group also uses managed accounts. However, as opposed to Barrett & Company, Congdon already had an established investment team, including a CIO and trader, in place before stepping up to a fee-based model.

“When making the change to a fee-based model, though,” says Congdon, “I was presented with a wider range of investment options, which changed the dynamic of how we manage our clients’ accounts.”

In other words, expanded choice translated into an opportunity to better manage risk, which is now fundamental to the new value proposition at Congdon’s firm. “To fulfill this promise of better risk management,” says Congdon, “I also expanded my investment team to include a quantitative analyst. So far, this new approach to managing client assets has been a great move for my practice and, more important, my clients.”

Mike Lickiss of Foundation Financial Group echoes Congdon’s sentiments about how greater investment choice by having access to a wider range of solutions on a new platform helped him improve risk management for clients.

“As a long-time user of actively managed mutual funds,” says Lickiss, “I now have greater choice and discretion when creating client portfolios, with access to a wider range of management styles across mutual fund families. That essentially gives me a bigger toolbox to help manage client risk.”

As part of his risk management process, Lickiss now groups clients by risk tolerance. “This makes it much easier for me to switch funds for a group of clients; it’s just the click of a mouse,” notes Lickiss. “Before having this discretion under the fee-based model, I had to call each client to ask their permission about making a change. It’s much more efficient now, freeing me up to focus more on areas that will help me grow the practice.”

But providing more investment choices also means spending more time conducting due diligence on these investment options. “Since I like picking funds and building models myself, due diligence definitely takes a lot longer,” says Lickiss. “As a result, I’ve recently automated my process of data collection to facilitate a more efficient and thorough due diligence process.”

Use technology to support your client experience and productivity

To combat the extra time and effort involved in a move to a fee-based model, Mark Rapoza says technology must become your friend. In Rapoza’s case, he and his team invested in its first CRM system a year before making the switch to fee-based management.

“While it was a lengthy process to populate the system with our client information and workflows,” says Rapoza, “I felt strongly that this system would provide us with the discipline and efficiency to contact clients on a more regular basis, rather than to simply react to some type of account activity.”

Ultimately, his vision played out just as he had hoped.

"We now have more regularly scheduled conversations," says Rapoza. "We are also able to take that extra step of reviewing where clients stand in a number of important areas of their lives, such as estate planning."

> "I believe it would be difficult to transition to a fee-based practice without having a great client management system."
>
> — Mark Congdon, Founder and Senior Partner, The Horizon Group

As a healthy habit, Rapoza documents all findings in the CRM, ensuring they become touch points in future client reviews. To complement the CRM, Rapoza then adopted planning software.

"I saw eMoney[1] at a Fidelity conference about a year ago and was impressed," says Rapoza.

Two months ago, he finally committed to implementing the software for his team within Barrett & Company, realizing that he needed to find a way to deliver planning on a scalable basis if he was going to truly address clients' most important financial concerns.

"These days, clients are concerned less about which funds are outperforming and more that they have a roadmap to be financially organized," says Rapoza. "For my clients, using eMoney features, such as account aggregation and the client vault, brought a huge sigh of relief due to their added organizing power."

Today, the eMoney planning software, in combination with client data in the CRM, is helping Rapoza's firm capture a clearer picture of their clients' financial lives, allowing Barrett & Company advisors to build deeper client relationships while achieving scale.

"One caution," says Rapoza, "is that I do think there's a steep learning curve getting to know the CRM, the new platform to manage my fee-based business, and the planning software—it's almost overwhelming. But, ultimately, I'm convinced this is the right approach for my clients and my practice."

Consider segmentation as a way to gain efficiencies

For Mark Congdon, relationship management was part of the original DNA of his practice when he started out more than 20 years ago, instilling a discipline from the get-go that capturing client and prospect data was essential.

"At any time, I could tell you if anybody was retiring from area firms," notes Congdon. "I built such a network from existing clients that I relied on the CRM to manage these introductions and leads."

To complement the CRM, Congdon's firm implemented an overall approach for client management, starting with new technology systems that helped them with segmentation and all-important client reviews.

"About 12 years ago, we formalized a process for client reviews that includes an in-depth review of the client's financial life, including cash flow, balance sheet, tax returns, beneficiaries, long-term-care situation, and changes in company benefits," says Congdon.

While all clients receive this thorough review, the firm's segmentation, which is based on revenue generated to the practice, dictates the frequency of the reviews that each client receives.

"For example," says Congdon, "our highest client segment, Platinum clients, meet with us every six months, while Gold clients meet with us every nine months, and Silver every year."

While Congdon's firm may be ahead of the curve in managing client relationships, stepping up to a fee-based model also required them to review how they addressed bottom tier relationships they still valued.

"We want to keep those relationships," says Congdon, "but we need to be more efficient with them. I'm still in the transition and am exploring opportunities to move some of them to a digital advice solution in the future."

[1] *eMoney Advisor, LLC, is an independent company and is affiliated with Fidelity Investments. Products and services referenced herein are the property of eMoney.*

Strive to align your prices with your value

As you've read in the featured advisors' stories, stepping up to a fee-based platform provides a way for advisors to redefine their value proposition, including a stronger focus on meeting client needs. As you move forward with plans to switch to a fee-based approach, we encourage you to consider how you incorporate your increased value into the price you charge for services.

Here are two good places to start:

1. Understand what competitors in your local market charge.
2. Review industry benchmarks.

Timing matters with this undertaking. Be sure to consider these two key steps *before* deciding on a fee structure and determining whether to charge additionally for services beyond investment management (e.g., planning) or establishing account minimums.

ACTIONS TO CONSIDER

The following activities may be helpful as you begin to define your practice model:

Identify your preferred model and fill in any gaps. You may want to consider, at a minimum, the following areas: the offering you envision, your approach to serving clients, and your pricing structure. Once you define your new model, assess your existing capabilities to identify any gaps you need to fill. We included a sample worksheet at the end as a resource to help you with this exercise. This worksheet is not exhaustive of the possibilities for defining a new model.

Explore ways to scale your practice. To grow at the pace and size you want, look for opportunities to be more efficient in your overall efforts, as well as with smaller clients. For some, that starts by determining where you want to spend your time (e.g., managing money, growing relationships by offering comprehensive planning, acquiring new clients). Your answers may influence what you decide to offer and the types of technology you implement across your practice.

Consider how segmentation could help. Client segmentation is one way to gain efficiency without compromising quality. As you think about ways to grow, make sure to explore the role client segmentation plays in your practice.

Redefine your value and story

> "Advisors traditionally thought that picking the best securities was their value proposition. But that's no longer the case. Advisors need to accept that wholeheartedly and feel good about delivering new and different value in return for that advisory fee."
>
> — Greg Kalosieh, Vice President of Sales and Marketing, Securities Service Network, Inc.

Stepping up to a fee-based model and offering more value may mean charging more for your services. While that can be a positive for business, the thought of having those pricing conversations with clients can be painful.

The featured advisors told us that they considered two keys steps to preparing for client conversations about pricing changes:

1. Determine the incremental value you add to your client relationships under a fee-based model.
2. Translate these thoughts into a story to tell clients when you decide to introduce your new working approach.

To help you redefine your value with clients, check out these examples of how other firms did it successfully.

More transparency, plus more time to dedicate to goal achievement

Mark Rapoza spent a considerable amount of time defining his new fee-based value proposition and determining how to explain it to clients.

"I'm transforming the entire dynamic of how I work with clients," says Rapoza. "In addition to my new fiduciary responsibilities, I'm now focused on delivering advice and guidance instead of just picking stocks."

Storytelling is helping to guide him through the client conversations, building their trust. "First, I explain how the industry is moving toward increased levels of transparency to aid clients, as well as what that means for our relationship," says Rapoza. "This conversation includes explaining my fiduciary responsibilities."

Rapoza then shifts the conversation to how he plans to provide more in-depth financial planning beyond what he currently offers. "This change in focus," says Rapoza, "means we can spend much more time discussing their big financial questions and concerns, which builds great confidence that we can achieve their financial goals together."

When introducing the new fee structure, Rapoza explains to clients that they are now paying for services in a different way. "I certainly don't say it's going to be cheaper or more expensive—I anticipate they'll pay a similar amount as in the past," says Rapoza. "The difference now is that whatever they pay for is going to reflect a deeper client relationship."

Meeting a wider range of client needs and goals

When it comes to redefining value, Mike Lickiss tells us that expanding his investment capabilities made it relatively easy to redefine and communicate how he delivers value.

"I now explain to clients that I can build more diversified portfolios that meet a wider range of client needs and goals," says Lickiss. "While there are no guarantees, the greater choice and flexibility can potentially result in better managing risk."

Another perk: The enhanced investment capabilities make it easier to replace a fund if it's in the client's best interest. "There's no charge to change funds, whether it's front-end loads or back-end charges," says Lickiss. "In the past, if the fund or fund family began to struggle or had an internal difficulty, moving clients out of the fund required paperwork, potential costs, and multiple other considerations. I believe this is a real value-add for clients."

Risk management

Over the years, Mark Congdon of The Horizon Group offered a clear and focused value proposition geared toward his niche market.

As Congdon tells it, in the mid-1990s, a large local employer eliminated a number of professionals.

"I saw an unmet need: recent retirees trying to navigate new waters," says Congdon. "So, I decided to understand the ins and outs of the plan and offered financial and retirement planning based on each retiree's unique situation."

The result was that Congdon became a go-to advisor for employees leaving the company. In fact, the vast majority of his clients today are retirees of that company, including many former executives.

For Congdon, switching to a fee-based model required him to find a way to articulate his newly added value to clients, who were primarily focused on income and legacy planning. "I positioned the change as offering a more formalized investment process that focused on risk management," says Congdon.

Because Congdon added quantitative analysis to his process, he explained that he could now select investments that he could mix together at a very defined level of risk, allowing him to quantify risk better. "For our client demographic," notes Congdon, "this extra value aligned perfectly with their needs."

ACTIONS TO CONSIDER

The following activities may be helpful as you redefine your value proposition and story:

Document how you have added value to the relationships. As you embark on this step, define the ways you have added value before stepping up to a fee-based practice — and what will be different in the future. This exercise will help you identify the incremental value you will be adding for clients, ultimately allowing you to craft an effective story. Consider not only your service offering and client experience, but also your approach to upholding your responsibilities when overseeing client accounts.

Test your message. You may also want to test the effectiveness of any proposed messaging changes with a small group of trusted clients or your client advisory board, if you have one in place. Their feedback can help you fine-tune your final, repackaged story. In addition to testing your message, practice delivering it with someone you trust, whether it's a family member or a client who knows you well.

Tell your new story throughout all your communications. Create a unified front that consistently tells your new story right. That means updating all print and online communications—including your website, social media, presentations, fact sheets, and brochures—so they reflect your updated value proposition and supporting story about your practice, and meet any new regulatory obligations or responsibilities you may now have.

Train your team. Training your associates may ensure that everyone who supports you delivers your firm story consistently. As part of your training, consider role-playing exercises to help associates practice the delivery of the new message.

Start transitioning clients

> "Initially, I started the transition process with clients who knew me very well. My feeling was that if my messaging wasn't yet refined, the conversation wouldn't scare them away from the idea of entering into a fee-based relationship with me."
>
> — Mike Lickiss, Financial Advisor, Foundation Financial Group

What if your clients are completely resistant to change? What if you underestimate the extra work involved in a big change? What if, what if, what if?

There are many factors involved in any change to your practice. But one tried-and-true way to flesh out what you need to do to succeed is start small and test it. That's exactly what a number of the featured advisors did.

A soft rollout with a few clients can help you see if clients accept your new value proposition, your supporting practice story, and your fee structure—all while helping you refine your operational procedures for a successful transition.

Let's take a look at how the featured advisors approached their transitions and gained client reactions.

Start with a tiered approach that begins with those who know you best

Mike Lickiss started the transition conversation with clients who knew him very well.

"My feeling was that if my messaging wasn't yet refined, the conversation wouldn't scare them away from the idea of entering into a fee-based relationship," says Lickiss. "The last thing I wanted was a poor message that prevented clients from doing something that benefited them."

After moving his closest clients, Lickiss methodically worked through his entire book of clients, one relationship at a time. "I believe this isn't something that can be communicated through a letter or email," says Lickiss. "You need to talk in person with each client. As we do that, we're learning and refining the process as needed."

Going one-by-one has also allowed Lickiss and his firm to avoid large-scale, time-consuming errors. "There's a learning curve to this, no matter how much operational experience you have," according to Lickiss. "I would have hated to have gotten permission from 45 clients at once and moved them all, only to find out that we were using an incorrect form or forgot to obtain a signature. That would be a nightmare to have to go back to them all."

Don't fear rejection in your conversations with clients

Reject the fear of rejection. For the featured advisors, they reported that client reactions have been positive and fear of client resistance was overblown.

"To be honest, I was very hesitant in my first few client meetings because I thought they would rebuff me," says Mark Rapoza. "I was concerned they'd say, 'Does this mean, after all these years, we haven't been working together the right way?' or 'Why didn't we do this before? Why now?'"

Rapoza's fears were proven unfounded, with clients agreeing that the fee-based model made complete sense. In fact, the subject of pricing has gone surprisingly well to date. "What I have found, ironically, is that the fee conversation clears up the mystery for clients about how they're paying for advisory services," says Rapoza. The fee conversation around the transition helps clarify how clients are paying for services and actually goes great."

Echoing Rapoza's experiences, Lickiss says, "Ninety percent of the clients I introduced my new model to had an absolute acceptance of working with me on a fee basis. Of the few that were hesitant, one client is simply risk-averse by nature and wanted to be sure I'll stick with my approach, asking that we revisit the question in six months."

But that's not the only news from Lickiss. "I'm now seeing more business flowing in from existing clients that we have transitioned," he says.

Managing cash flow during the transition

For those considering a fee-based model, it's only natural to have concerns about switching from commissions to fees. The featured advisors conceded that cash flow can be tight for a brief period of time, but a little personal financial planning, combined with a staged transition of clients, helped ease income strains during their transitions.

Mike Lickiss describes the situation this way: "Because I was fully committed to the fee-based world from the get-go, the commission side of my business slowed down substantially. This meant that cash flow was a little tight for about a two-month period during the transition. But once the fee-based side began to ramp up, it just kept escalating upward because my clients loved it and began giving me more and more business."

ACTIONS TO CONSIDER

As you think about your approach for transitioning clients, consider these steps:

Establish a timeline for discussing the transition with clients. Like the advisors in this paper, you may want to approach clients you are most comfortable with first. This will help you refine your message and operational procedures. It will also help you determine a transition schedule that accommodates your practice needs and available resources.

Prepare to address potential client concerns and objections. Make a list of concerns and objections clients may raise in your conversations, along with ways to respond to each one. By going through this exercise, you may better prepare yourself to address their concerns and persuade them to consider working with a new fee structure.

Explore ways to address smaller accounts. Determine how to best serve smaller accounts and to assess their needs, their growth potential, and the resources you have available. As part of your assessment, you may want to explore segmentation strategies that include tiered service levels and incorporate technology, such as a digital advice solution, to help you scale and support a more relationship-driven practice.

Document operational policies and procedures for transitioning clients. To help you transition new clients, document your policies and procedures for initial client discussions, as well as operational activities associated with moving clients to your new model. Consider providing standard operating procedures for everyone in your practice to follow throughout a client transition, which lets you deliver a consistent experience to clients.

Review legal and compliance considerations. We encourage you to work with your legal and compliance teams to better understand best practices and any requirements for conducting conversations with clients about a fee-based transition.

Defining your business model

Creating a description of your business model is an important activity to undertake before beginning the process of transitioning clients to a fee-based model. The worksheet below is intended to help you create a description of your offering and how you plan to charge for your services. You may want to consider relying on the description you create to help you introduce your new model to clients.

SAMPLE WORKSHEET

NAME OF YOUR FIRM	
Offering	**Investment management services include:** • • • • • • •
	Our financial planning capabilities encompass: • • • • •
	Our relationship support services and communications include: • • •
Fee structure	**Services are priced as follows:** • • •

This is a sample. It is not exhaustive of all possible business options or services an advisor may consider for his or her particular situation. You must conduct your own analysis, review, and due diligence based on your specific situation. You are responsible for evaluating your own practice and making your business decisions for your firm.

COMPLETED SAMPLE

WELLFLEET WEALTH MANAGEMENT *(Hypothetical Firm)*	
Offering	**Investment management services include:** • Investment policy development • Portfolio strategy • Asset allocation • Implementation and oversight of investment strategy • Risk management • Comprehensive quarterly reporting • Daily reporting via online client portal We rely on an open-architecture model that represents a multitude of fund companies to select the appropriate managed funds to create custom client portfolios. We do not accept payments in any form from these fund companies for using their investment solutions. We also strive to find the lowest cost investment solution that meets clients' goals.
	Our financial planning capabilities encompass: • Holistic financial planning focused on client priorities, values, and goals. This planning includes, among other things: – Comprehensive retirement and longevity planning – College planning – Charitable planning – Estate planning – Tax planning We work with a third-party accounting firm to provide tax-planning support.
	Our relationship support services and communications include: • Monthly newsletter and semiannual thought leadership • Semiannual client meetings to review progress against goals in light of investment performance and other factors • Meetings based on preferred communication methods: in person, via conference call, video conferencing
Fee structure	**Services are priced as follows:** • 1% on the first $2 million in assets under management • 0.75% on assets under management above $2 million • Minimum relationship size for new clients: $100,000

For illustrative purposes only.

This is a sample. It is not exhaustive of all possible business options or services an advisor may consider for his or her particular situation. You must conduct your own analysis, review, and due diligence based on your specific situation. You are responsible for evaluating your own practice and making your business decisions for your firm.

Notes

For additional insights and resources, please visit our website or contact your Fidelity representative or home office.
https://clearingcustody.fidelity.com

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