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# Five ways for financial advisers to raise fees



**By Lavonne Kuykendall** | *November 13, 2011 - 12:01 am EST*

With asset-based revenue flat or lower and the costs of insurance, technology and personnel rising, many financial advisers would like to raise prices. But in today's market, even the thought of that "puts a knot in advisers' stomachs," said Ginny Hudgens, president of Back Office Adviser LLC, a consulting firm based in Baton Rouge, La.

Advisers who have made the move, and many of the consultants who have helped them do it successfully, say that preparation is essential. Here are the five steps they suggest that advisers keep in mind when raising prices:

**1.** Consider whether an across-the-board hike is necessary. Before raising prices, advisers should take a good look at their business and client base, said Diane MacPhee, a business coach with DMAC Consulting Services of Manahawkin, N.J. Sometimes only a few clients need fee adjustments, negating the need for an across-the-board increase. If a handful of clients require far more time than others, their fees should reflect that level of service.

Ms. MacPhee said that one of the advisers she coaches had been charging a discounted fee of $12,000 annually to a client with a $4 million account — the equivalent of 0.3% of assets. The adviser spent so much time on the account that he felt that he was being held back from taking on new business.

“The fee he was charging was way too low for the amount of work he did, but he hesitated to bring up the subject,” Ms. MacPhee said.

**2. Have a good reason for raising fees.** Raising fees requires advisers to give clients something more than the client got before, Ms. MacPhee said. “You need to deliver noticeably better service,” she said.

A few years ago, Scott Tobe, managing partner of Signature Financial Planning in Pittsburgh, decided that rather than using a third-party administrator to manage brokerage assets, he could get better results by bringing that function in-house. Doing that, however, required that he raise prices for almost all of his 425 brokerage clients.

“We had individual conversations as we did their reviews,” Mr. Tobe said. He had a prepared explanation of the benefits of the change and showed them how reduced third-party fees would mean that their net costs wouldn't change much.

“I was a bit nervous going into it,” Mr. Tobe said. “But we knew it was fair. You have to have conviction. If you don't have a value proposition, you are just like everyone else.”

Few clients complained about the increase, and Mr. Tobe makes it easy for them to compare the firm's investment results with the S&P 500 to reassure themselves.

“We have performed well relative to the market,” he said.

**3. Rethink your entire fee structure.** Retainer fees are becoming more popular among fee-only advisers, some of whom see conflicts of interest in charging a fee based on assets under management, Ms. MacPhee said.

Bert Whitehead, president of Cambridge Connection Inc. of Franklin, Mich., thinks that asset-based fees are a bad business model, and said that clients are beginning to notice that, too. For the past 40 years, he has set his fees based on what he thinks is a less conflicted combination of real estate assets, income, the complexity of the account, time needed, how much responsibility the firm undertakes and investment asset value. Mr. Whitehead said he thinks that more advisers will start following suit so that they don't live and die by stock market performance.

“If someone has $2 million in a 401(k) plan, a fee-based adviser might be tempted to tell him to roll it over so they can charge another $20,000” under the percentage model, he said.

**4. Get feedback from key clients.** Fifteen years ago, Charles D. Haines Jr., chief executive of Kinsight LLC of Birmingham, Ala., undertook research on what competing firms in the area charged, and found that he was seriously underpricing his services. He turned to a client for advice on how to talk about a price increase. The client, an attorney, volunteered to draft a client communication letter, which Mr. Haines ended up using.

“Our letter would have been more defensive,” Mr. Haines said. “The attorney looked at it from the client's perspective and focused on how the client would benefit.”

The firm followed up with an in-person meeting, which most advisers suggest.

“I don't think we lost a single client,” Mr. Haines said.

**5B. Be confident.**“Advisers need to be assertive without being defensive,” said Renee Kennedy-Edwards, president of Coaching 4 Success Inc. of Bonita Springs, Fla. “Take your heart out of it and look at what your business needs.”

Ms. Kennedy-Edwards counsels clients to have a script prepared if necessary when they talk to their clients and to let clients vent if they feel the need.

About half her adviser clients have struggled with building up their self-confidence, Mr. Hudgens said.

“Without confidence, conversations about raising fees can be incredibly painful,” she said. “Advisers handle the conversation badly, which gets clients angry and makes things worse.”

Advisers who have prepared carefully before raising fees find that the response from clients typically is more positive than the advisers feared.

Lisa A.K. Kirchenbauer, president of Omega Wealth Management LLC in Arlington Va., lost just three of her more than 60 clients when she raised prices.

“The fee increase caused them to look at other options and think about what they wanted,” she said. All three partings were friendly, and Ms. Kirchenbauer thinks that even those might have been prevented if she had listened more carefully to what they wanted and made a better case for her firm's work.

At the opposite end of the spectrum, one client told her, “It's about time.”

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