Study: Fee-based biz boosts revenue

Even so, 72% of industry assets remain in commission-based accounts

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If you are going to go for fee-based business, go strong. Virtually all financial advisers have been expanding that type of business in the last decade, but those who have made the move most aggressively are having the greatest success.

Data from PriceMetrix, a practice management software firm, show that advisers who increased their fee-based assets by more than 25% over the past three years saw revenue increase by an average of 47%. That compares with average revenue growth of 21% for all advisers and just 19% for advisers who increased their fee-based assets by less than 5%.

“There's been a continental drift towards fee-based business for years,” said Patrick Kennedy, co-founder of PriceMetrix, which aggregates account data from approximately 25,000 advisers managing a total of $900 billion in assets. “But those who set out to really transform their business are getting the best results.”

More than 90% of the advisers tracked by PriceMetrix over the past three years have at least one fee-based account in their book of business. More than two-thirds of those advisers increased the ratio of fee-based assets in their book of business over the period, with 35% of them increasing the ratio by more than 5 percentage points.

Seventy-two percent of industry assets remain in commission-based accounts, but that is down from 79% three years ago.

“There's a notion that advisers are either transactional or fee-based — that it's a state of mind,” Mr. Kennedy said. “The reality is that most advisers' books have both kinds of accounts.”

FAR MORE LUCRATIVE

The fee-based relationships, however, are far more lucrative. The average fee account in the PriceMetrix sample was 46% larger than the average transactional account and generated $2,900 in annual revenue, versus $870 on transactional accounts during the study period.

The average return on assets in fee-based accounts was 1.18% — more than twice the ROA on transactional accounts.

Not surprisingly, the advisers with higher ratios of fee-based relationships generated far more income from their books of business. Those with more than 75% of the assets they manage in fee-based accounts had an average book ROA of 0.96%, while advisers with less than 25% had an overall ROA of 0.6%.

Part of the benefit of moving more deliberately to a fee-based model is that it can help advisers weed out unprofitable clients. "The fee-based relationship forces advisers to have the pricing/value proposition conversation upfront," Mr. Kennedy said.

LIKELY BETTER OFF

Advisers likely are better off without the clients who are unwilling to accept a different pricing model, Mr. Kennedy said.

He said that 40% of investors who have advisers pay them less than $100 a year. "Financial advisers struggle with firing clients and they may feel that they'll lose assets if they transition to a fee-based model," Mr. Kennedy said. "In fact, the opposite is true; they tend to grow assets more quickly."

Although the shift to fee-based relationships might seem like a no-brainer, Mr. Kennedy suggested that advisers make sure that their most important clients are open to the idea.

"Advisers need to understand their clients' points of view and preferences," he said. "If you're going to start offering gadgets instead of widgets, you need to make sure people want gadgets."