Reprinted from DOW JONES NEWS SERVICE.

SEPTEMBER 13, 2012

PRACTICE MANAGEMENT: When a Client Balks at a New Fee Structure

--Advisers thought their new firm's fee-only rate structure was an easy sell

--An important client didn't like the new fee plan

--The experience forced the advisers to regroup and compromise

Adam Scott and Josh Rudoy are experienced financial advisers and longtime colleagues who had discussed starting their own firm for years. When they finally opened Los Angeles-based Argyle Capital Partners this year, they had 30 clients--most of them holdovers from their previous firms--and about $20 million in assets.

The transition introduced one big change for clients. The new firm used a fee-only rate structure, which Mr. Scott and Mr. Rudoy thought would be an easy sell. The payment model offered significantly lower fees for many clients, compared with a commission-based fee structure. But the pair were surprised when one of their first, and biggest, clients balked at the proposal. That put the foundation of their new firm in jeopardy.

"We have to understand that some of these clients find change difficult," Mr. Scott says.

The client who pushed back against the fee change was a retired businessman with $5 million in assets. He was very involved with his investments. Also, he was an old family friend who had stuck with Mr. Rudoy through his career. "He's the type of guy who checks his account at least once a day, but usually more," Mr. Rudoy says.

The pair assumed that their client would love the new rate structure. And as one of their largest clients, they were counting on his business.

"Because he was a good client, I told him that I would charge him a fee of 75 basis points of his total assets," says Mr. Rudoy. The advisers had crunched the numbers and found that those fees would save the client nearly $30,000 a year.

But even with the savings, the client didn't like the idea. He didn't want to pay the same fee for the advisers to manage his less active bond account as he would pay on his high-maintenance equities account. He also said that although he paid more in commissions at his previous firm, the fees felt lower because the money was taken out of each transaction, instead of being charged all at once.

"Seeing that big number intimidated him," Mr. Rudoy says. "We weren't prepared for that. We thought the savings part of the sale was going to be a slam dunk, but the fact that it was different totally disrupted him."

The curveball forced them to not only retool their communication with this important client, but also to compromise on an important piece of their new business model.

The pair developed a spreadsheet that compared what the client had been paying, at another firm where Mr. Rudoy advised him, to a forecast of his fees under the new payment structure. Mr. Scott says it was a delicate conversation because the advisers didn't want to criticize the service Mr. Rudoy had provided in the past, but they also needed to convey that the new fee structure was a better deal. The advisers also explained that they chose the fee-only model because it would allow them to look after all of their clients' wealth equally.

The pair and their client eventually found a solution. They agreed to set up two accounts for the client, one to hold stocks and one for bonds. They would charge a 1% fee on the value of the stock portfolio and a fee of 50 basis points to manage the bonds.

"The rationale behind this was purely as a convenience for the client--to enable him to see the fees being assessed each quarter, and the difference [in those fees] for the respective activity levels," Mr. Scott says. Although the compromise was not the advisers' first choice, they felt it demonstrated their willingness to listen to the client's concerns and accommodate his needs.

The plan satisfied the client, who signed on with the firm.

"Just because something appears to be a win-win doesn't mean that it is," notes Mr. Scott. "But it's always great when a client kicks back because it forces us to re-examine what we're doing."

(Practice Management is a column that looks at ways financial advisers can build and improve their business. Kelly Kearsley can be reached at 212-416-2245.)

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Corrections & Amplifications

This article was corrected at 10:20 EDT to fix the number of clients the firm serves. The correct number of clients is 30, not 60.

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"PRACTICE MANAGEMENT: When a Client Balks at a New Fee Structure," at 12:58 p.m. Thursday and 7:35 a.m. Friday, misstated in the first paragraph the number of clients the firm serves. The correct number of clients is 30, not 60.