Fees And Fiduciary: Good Business, Bad Marketing

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Executive Summary

As the financial planning profession continues its inexorable march towards a fiduciary client-centric standard of care that minimizes or outright avoids conflicts of interest, those most passionate about carrying the torch have often been the most vocal in promoting those standards within their own businesses. Yet recent research shows that from the consumer's perspective, "fiduciary" is confusing and the word "fees" evokes an outright negative response; the special meanings we attach to those words inside our industry have translated poorly to the general public. The key, then, is to figure out how to operate in the interests of clients, while communicating a message that is less about the battles being fought inside the industry and more about how the client benefits. Otherwise, while it's true that those firms doing the best job of truly serving clients may be rewarded with the most referrals, they may not be able to convert those referrals to clients and grow their businesses if they have dug themselves a hole they can't climb out of by using consumer-unfriendly terminology in the first place!

The inspiration for today's blog post is the highlights of a recent study by Sullivan/Northstar entitled "Rebuilding Investor Trust" that attempted to answer the question "What Do Today's Affluent Investors *Really* Want?" The study, which has been repeated for several years, looks at trends in trust with advisors; for instance, Financial Advisor magazine highlighted their 2011 study, noting that trust in financial advisors had increase to 74% (from 61% in 2009), with 41% trusting personal communications from their advisor more than any other form of information.

As a part of the study, Sullivan/Northstar also examined general investor reactions to a wide array of terms commonly used by financial advisors, evaluating which were viewed positively, which were negative, and which were confusing. The surprising results? Some of the words advisors use most commonly to inspire trust, like "fee-based" or "fiduciary" are actually some of the most negative and confusing words in the advisor's lexicon, from the perspective of the client!

The Sullivan/Northstar Results On Fees

Surprisingly, "fee-based" was actually one of the terms that generated *the most* negative reaction from investors, with a whopping 64% of those surveyed expressing a negative reaction to the phrase. The only thing worse was the word "fluctuating" and by contrast, only 35% reacted negatively to "Whole Life" and only 32% to "Short Term"! And lest one read too far into this - assuming that consumers were making some finely sliced distinction between "fee-based" and "fee-only" as NAPFA does, showing up in the list of the top ten *positive* phrases was "No fee" with a 93% positive response rate. The remarkably simple message: consumers hate fees, and it casts a *negative* shadow on pretty much anything associated with them!

In point of fact, this shouldn't really be surprising. Outside of our industry's own "inside baseball" perspective on conflicts of compensation, the general public really does dislike fees. After all, how many people ever talk favorably about airline baggage fees, or cell phone activation fees? Would anyone really like airlines more if they advertised themselves as "fee-only transportation services"? Would we value the utility company more if it billed us a separate fee every time an electric line was repaired in our neighborhood, so that we would "properly understand the value that the utility company was delivering and ensure their business was appropriately compensated for each and every hour of work that was done on our behalf?" Of course not. In fact, the evidence from other industries is quite clear: attaching fees, especially standalone fees, is a way to *discourage* utilization of the service. In other words, as discussed previously on this blog, charging separate fees for financial planning is actually a fantastic way to reduce the likelihood anyone buys financial planning services!

Simply put, while talking about fees within our industry has one meaning, the reality is that it's industry jargon that most consumers don't understand. From the consumer's perspective, the conclusion is actually the opposite: fees are bad, associated with negative things, and stuff with fees is stuff to be avoided unless you absolutely have to pay for it (and then usually resented if you do have to pay for it!)!

The Northstar/Sullivan Results on Fiduciary

In the same manner that "fee-based" was negative in the Northstar/Sullivan results, "fiduciary" was just downright confusing. In fact, its 40% "confusing" response rate made it the second most confusing word/phrase of the study, just behind "life stage" at 41% and *more* confusing than "dollar cost averaging" at only 38%, as well as other common (but apparently confusing!) planning words like "concentrated" (35%) and "legacy" (33%).

That the fiduciary concept is confusing for the public probably isn't entirely news - many studies in recent years including especially the RAND study, as well as the ongoing struggles of both the industry and the media to explain the value and importance of the fiduciary duty - speaks to the lack of consumer understanding about what the fuss for "fiduciary" is really all about.

But the fact that it's actually one of *the most* confusing words we can use - in a world where most people don't like industry jargon and language they don't understand - implies that frequently talking about fiduciary could actually *reduce* trust with prospective clients, who are more likely to find you uncomfortable and untrustworthy for using jargon and talking over their heads, rather than being more trustworthy by virtue of your fiduciary duty!

And of course, in many situations, we as professionals then proceed to make the situation worse by trying to *explain* fiduciary, which as I've noted previously on this blog usually comes out less like explaining to the prospective client why you are good, and more like explaining why everyone else is bad... even though most people are clear that they don't like to work with professionals who bash their competition.

Is A Focus On Fees And Fiduciary Bad Marketing?

Ultimately, what the Sullivan/Northstar research suggests is that actually using words and phrases like "fee-based" (or ostensibly "fee-only") and "fiduciary" are actually *less* likely to garner clients than not using them, especially given how salient it makes the cost of financial planning. That's not to say that you'll never get a client by mentioning those terms. But it does mean that you're actually setting yourself up for trouble by leading with words and phrases that are viewed with negativity and confusion... giving you a hole you have to dig yourself out of before you even get started. And of course, if these words and phrases are prominent on your website, it's entirely possible that the client who got referred to you or found you through the internet took one look at your website with all its negative and confusing words and decided to move on without calling you at all. In other words, using language referring to the fact that you charge fees and are a fiduciary may be yet another way that planners lose clients before even meeting them once, without ever being aware that the prospective client was lost!

The point here is not to say that charging fees or operating on a fee model is a bad way to deliver services to clients, nor is it to imply that you shouldn't be a fiduciary. As I've written in the past, the *only* way advice should *ever* be delivered is as a fiduciary, period. But *the decision about how to operate your business model is a separate matter from how best to market and communicate your value to clients*.

From the prospective client's perspective, what matters in the end is not how you're compensated, or the standards you're held to, but the way those realities affect *the client*. Simply put, prospective clients care about the WIIFM - "What's In It For Me" - message in your marketing and value proposition. And like it or not, "Hey you have the privilege of paying me fees while I use fancy legal terms you don't understand" is not a particularly compelling WIIFM message, to put it mildly.

And perhaps more importantly, in the end your clients will refer you because of the outcomes *they* enjoyed, not because of how you explained you were compensated or the legal standard to which you were held. In other words, *acting* like a fiduciary paid via fees that has managed or avoided conflicts of interest to deliver superior results to clients still matters far more than just talking about it, anyway. But even that only matters if your prospective referrals aren't turned off by the negative and confusing jargon on your website!

So what do you think? If you were in your client's shoes, without familiarity of the financial services industry, what would you really think of paying fees or working with a "fiduciary" for advice? Do you have positive feelings about other businesses where you pay fees? Do the other professionals you trust even *talk* about being fiduciaries, or do they just *act* like one instead?