

In the race to the client, Advisers should aim to stay in the lead

Fee pressure is here to stay. In the “race to the client” being run by platforms, DFMs and fund houses, it’s up to advisers to rethink their business model, and make sure they stay in the lead.

In this series of articles, I look at some of the key topics explored in my book “[How to Invest With Exchange Traded Funds](#)” that also underpin the [portfolio design](#) work Elston does for financial advisers.

Fee pressure is here to stay

Between competition, regulation and ultra-low interest rates, there is understandable and justified pressure on costs.

Looking at the overall “value chain” – the cost of advice, platform, discretionary manager, and underlying funds – means that without careful scrutiny, investing a pension or an ISA ends up meaning its client money risked for the financial service industry’s reward.

With these “all-in” costs sometimes as high as 2.50%-3.00%, the situation is untenable, particularly when contrasted with non-advised workplace pensions and non-advised d2c solutions that can deliver a manager multi-asset investment solution at an all-in (excluding advice) cost of 0.50-0.75%.

Put simply, if we imagine a price anchor/price cap of 0.75% for workplace and pathway-style non-advised investments, there is effectively a soft-price cap of 1.75% for advised investments, in our view, from a Value for Money perspective.

MiFID II has been a tremendous driver of total cost transparency, and has sharpened the minds, and the pencils, of clients and advisers alike.

The cost of delivering investment solutions (excluding advice) differs vastly depending on whether accessed via advised, workplace and non-advised channels (see Fig.1.). This is not sustainable.

Fig.1. Illustration of Value Chain, by channel

	Advisory Channel (2010 estimate)	Advisory Channel (2015 estimate)	Workplace Channel (default strategy)	D2C Channel (multi-asset fund)	Advisory Channel (2025 estimate)
Advice	1.00%	1.00%	-	-	1.00%
Platform Administration	0.50%	0.35%	0.35%	0.45%	0.15%
Investment Manager	0.50%	0.35%	0.30%	-	0.30%
Underlying Funds	1.00%	0.80%	0.10%	0.30%	0.30%
Total Cost of Investing	3.00%	2.50%	0.75%	0.75%	1.75%

Source: Elston Consulting illustrative estimates

Changing landscape

Given the inevitability of fee pressure and a steadily shrinking pie, there are three key trends emerging:

- **The race to the client:** the only part of the value chain that is non-commodisable is client relationships. Either having them, or not. This is driving a huge surge in M&A activity and vertical integration and business transformation, as platforms set up DFM businesses, DFMs offer advisory services, and fund houses go direct to client. In this race to the client, advisers are in the lead, but will have to fight to keep it that way.
- **Control of the Value Chain is key:** “whoso looketh after the client, controlleth the value chain”. Next generation advisers are using their muscle to be price setters to platforms, DFMs, and funds not price takers.
- **The institutionalisation of retail:** As technology makes platforms and investment management more efficient, the boundaries between institutional and retail investment solutions and pricing has started to blur.

The Race to the Client

Sustained fee compression across the value chain, means that there is a growing awareness amongst providers within the industry that their position in the value chain can be commoditised.

That’s why there is so much corporate activity and proposition change from all the different parties within the value chain. Fund houses are investing in platforms, platforms are setting up advice firms, and advice firms are setting up DFMs.

All of these parties are afraid of watching their products or services being commoditised, and hence many want to move to a vertically integrated model. I call this the “Race to the Client”.

And yet at the end of the day, there is only relationship that matters and that cannot be commoditised. And that’s one of trust and personality which makes up the relationship between the adviser and their client.

Control of the value chain: who has the power?

Whilst some fund houses see advisers as “Distributors”, the truth is now the opposite.

Instead of being price takers, advisers are becoming price setters.

In the race to the client, advisers are and should aim to stay in the lead. But only if they take control of the value chain and align it to their clients’ best interests.

Next generation advisers are no longer fund pickers, or model pickers, or manager pickers: they are fiduciaries who owe a duty of care to their clients and help them navigate the maze of financial services to ensure good customer outcomes, and excellent value for money.

The institutionalisation of retail

As workplace schemes become more individualised, and individual schemes become more mass-market, the retail and institutional worlds are beginning to collide, and this “institutionalisation of retail” means a focus on greater governance, increased professionalism, at substantially lower end-client costs.

Strategic options for advisers

Advisers have a number of options to compress all-in costs, whilst enhancing their business model.

- **Option 1:** reduce your advice fees from 1.00% to 0.75%, 0.50% or even 0.25%? Erm, no. That would be misplaced, as out of all parts of the value chain, the value of advice as well as the time-cost in delivering it, is highest. But amazingly, in the absence of thinking through alternatives, some advisers do take this approach.
- **Option 2:** leverage your scale and the competition in the platform market to use a lower cost platform. With little to differentiate platforms, their pricing power is weak, and susceptible to commoditisation, particularly from more technology enabled disrupters..
- **Option 3:** leverage your scale and the competition in the DFM market to use a lower cost investment solution, both in terms of the DFM fee and the underlying fund fees.
- **Option 4:** a combination of Options 2 & 3. But with a twist: by creating your “own” proposition you can ensure you have ongoing and permanent control of the overall value chain, to ensure you can protect client’s interest by leveraging your scale to plug and play the right manager and/or platform for your mandate. This is not a loss of independence, but using your clients’ aggregate scale to obtain best terms from suppliers.

If Option 4 can be done with a recalibration of business focus to devote time and energy to new business and excellent, empathetic client service, then so much the better.

Stop feeding the hand that will bite you

The race to the client is hotting up, and is all too visible from the M&A activity in the sector, and the rush of private equity capital into the UK advice market.

And yet many adviser firms seem determined to feed the hand that's going to bite them.

Why use a DFM whose stated aim is to cut you out of the value chain, and who spends more on Facebook ads, than your entire turnover?

Why use a fund house whose billboards at every station reach out to your clients to go direct?

Why use a platform that prefers to offer accounts to customers directly?

Looking after clients is the most valuable part of an adviser business. Don't give them away to your larger, bigger branded competitors.

Summary

As the race to the client hots up, the good news for advisers is that you are already in the lead. So stop feeding your competitors – the DFMs, the fund houses, the platforms, and take back control of the value chain to ensure you can protect clients' best interests.