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How Advisors Can Negotiate a Better Recruiting Deal

The best negotiators believe both sides should win. Here's a guide on how to be smart when negotiating with a new broker-dealer.

"Any business arrangement that is not profitable to the other person, will, in the end, prove unprofitable for you."
B.C. Forbes, founder of Forbes magazine

Without question, China is one of the most successful countries at negotiating business deals. Jeff Moon's July 17 *Wall Street Journal* article, "The President Turns the Tables on China," lays out what has made China so successful when negotiating with foreign companies wanting to make inroads into their country.

According to Moon, "Chinese officials often blame their foreign counterpart for any number of problems. The foreigners then have a duty, according to the Chinese, to make things right. Instead of specifying the terms for a resolution, the Chinese officials wait for foreign concessions. When the proposal arrives, the Chinese reject it as inadequate, forcing the foreigners to negotiate against themselves, offering more in each successive round. In the end, the foreigners are relieved when the struggle concludes, but they regret settling on terms much less favorable than they had planned."

Retail giant Walmart has historically employed similar heavy-handed tactics to get what it wants. Whatever price Walmart sets from each of its suppliers this year, it almost always requires the price to be lower next year. If a supplier doesn't agree to the lower price, Walmart threatens to pull all of the supplier's products from their shelves. Companies such as Lovable Garments and Vlasic Pickles went bankrupt from Walmart's walkaway policy. Walmart was absolute on this policy in the past, only relenting more recently because it was losing key, brand-name products to competitors like Target.

Compared to these aggressive forms of negotiation, financial advisors joining a broker-dealer tend to be on the other end of the spectrum, with little to no negotiation happening between the advisor and the BD at the time of getting an offer to join. Often, when we raise the issue of negotiation with advisors, they are not only unsure of what can be negotiated but also tend to despise the process of negotiating in general, likening the experience to dealing with a car salesman who is unrelenting over the purchase of an extended warranty.

It's crucial to realize that you have the most leverage to get what you want before committing to a firm. Once you join, you've largely lost your negotiating power because they have you.

What's On the Negotiating Table?

When negotiating with a broker-dealer, advisors have numerous avenues to pursue, including payout, ticket charges, forgivable note money, transition assistance, advisory administration fees/markups on third-party money managers, fixed indexed annuity commissions rates, and the broker-dealer contract.

Your production level will greatly influence your ability to negotiate. A $100,000 producer will largely have to take what is offered, while a $1 million producer will have a great deal of latitude on what can be modified. If you happen to be a large producer who also has a clean compliance history, the world is your oyster; your ability to negotiate is exceptional.

Payout

If you are largely self-sufficient, rarely using the back office of the broker-dealer, you can use this as a rationale to get an extra 1–2% in payout because you are low cost for the BD. If your business mix is highly concentrated in certain lower risk investment categories such as Advisory, here again you may have room to ask for more payout. Many firms have fixed payouts based on a grid from which they don't deviate. But don't assume this; go ahead and ask. The worst that can happen is they say no.

Ticket Charges

If you do a high volume of trades in a particular investment vehicle such as stocks, you have the ability to negotiate down on the ticket charge. If you do institutional stock investing, you will want to negotiate flat ticket charges with no cents per share or buck per bond. For a high concentration of options trades, not only request a lower ticket charge but also a lower per-contract fee. These are all profit centers for broker-dealers (not including some advisory ticket charges that are priced at the BD's net cost), so they have leeway to modify depending on how much they want you.

Forgivable Note Money

We've seen some advisors go back and forth with two to three broker-dealers leveraging them against each other until they reach their limits of how much they will offer (this can work well for the advisor but can be a turn off to the BD). For firms that offer forgivable note money, you also can opt for a higher payout for the note period as an alternative.

For firms that don't offer notes, you should be able to negotiate to have them cover transition expenses and perhaps first-year advisor expenses including errors and omissions insurance, monthly fees, technology fees, state registrations and the like. If your move involves a change of clearing, the new clearing firm will often pay all or a portion of your ACAT (automated customer account transfer) fees. A growing trend is for the broker-dealer to offer more transition money during third and fourth quarters as a means to hit their annual recruiting goals.

Transition Assistance

Broker-dealer recruiting volume often times follows patterns, with January, June and September/October tending to be busy months. If you are onboarding to a BD, check the BD's onboarding schedule to ensure you get the attention you deserve. Imagine a large producer group onboarding at the same time you are. It can make the difference between your book moving over in less than a month to three months. An OSJ manager shared with me that the larger a group is, the more difficult onboarding becomes. Partitioning time at the BD to secure undivided access to the onboarding team is vital.

Does the broker-dealer you are joining bring on as many advisors as they can land, or do they follow through with their promises by segregating and reserving time for all? Minor details such as reviewing back-office staff vacation schedules become critical to ensure the new advisors are not left panicked because someone is not at their desk for two critical weeks. As velocity picks up, so must the commitment to service.

Administration Fees/Markups on Third-Party Money Managers

For rep-directed advisory platforms, administration fees being charged can be negotiated down depending on how much volume of business you have, so that $100MM+ of advisory assets may bring you the ability to drop 2–5 basis points from the advertised price. For firms that markup third-party money managers anywhere from 2–25 bps, the volume of business you do dictates your ability to drive down costs.

While visiting a large publicly traded broker-dealer, I asked the head of advisory if they markup third-party money manager management fees. He matter-of-factly replied that for large producers, they may only mark up 15 basis points, while smaller producers, say around $500,000 or less, will pay up to a 25 basis-point markup. Most small- and medium-sized BDs and a few large BDs don't do any markup on third-party management fees.

Fixed Indexed Annuities

With most broker-dealers requiring you to run fixed indexed annuities through them, it's important to understand the extent of the profit center for the BD. Whatever insurance marketing organizations or IMO the BD networks with, the BDs are getting 30–50 bps from it, and also will be paid the spread between street level on commissions and national level. That could be the difference of a 5% commission and a 6-1/2% commission, with 1 ½ percent going to the broker-dealer and 5% to the advisor. If you are doing around $100,000 or more in fixed indexed annuities, take the extra step and ask for the higher national-level commissions from the BD.

Broker-Dealer Contract

It is prudent to have a securities attorney read through the broker-dealer contract to help ensure that your best interests are being upheld. One such area to review carefully is, "what happens if you leave the broker-dealer?" Most BDs have it written in the contract that if you leave them, they will continue to pay fees, trails and commissions for a period of time. A 30-day timeframe is the most common, with some firms going out for as long as 90 days. If the BD has 30 days, see if they are open to 60, because when you move, there is residual business flow that runs over 30 days, so 60 days will help ensure you capture all residual revenue.

Negotiate on those things that most apply to your business mix and where you think you have the most profitability to the broker-dealer. For example, if your book is 60% advisory, you'll need to drill down on advisory profit centers. As the Forbes quote makes clear, you want both sides to be profitable, and there is a balance to be reached. If you are a large producer, you need to spend considerable time asking for things that will help you net more and ensure your transition is done in a timely manner.

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