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Can IBDs Really 'Go-RIA'?

Yes, but they may have to execute their own transition for a change.

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RIA models attract advisors at a troubling pace for many broker/dealers. Will broker/dealer revitalization efforts fall short or too late to sway advisor interest? Can they effectively stem fleeting allegiance? Amidst the growing number of independent RIAs and new genre of innovative IBDs, financial advisors flourish with stronger fiduciary partners, out of the box technology and more effective work flows.

To earn advisor loyalty, the route is clear: reduce fees, foster institutional custodial relationships, avoid a "one size fits all" mentality and help advisors succeed, both personally and professionally. But instead of embracing a fiduciary mentality, broker/dealers still vie to buy business through alluring advisor retention contracts, which are ultimately funded by practice generated revenues.

It is now imperative for broker/dealers to make a choice: reinvent, reinvest, rebrand—or rust.

With a heightened sense of urgency, some broker/dealers have promoted their RIA registration while downplaying legacy B/D ownership. But is branding as a national RIA more than just a clever marketing strategy?

IBDs with corporate RIAs have been registered nationally for decades. However, the phrase national RIA hints at the RIA-only model (no broker/dealer ownership), commonly viewed as the premier best-interest model and aligned with industry movement. Although promotional claims may provide early mover advantages, B/Ds must first fit the independent RIA mold.

Ownership influence / PE Churn and Burn

The broker/dealer dilemma: cling to cash cows, such as advisory and access fees, or transform business models to meet changing industry preferences to benefit advisors and clients alike. Many B/D-RIAs have been slow to adapt or have not even started. Why? Reliance on high fees and extra revenue streams (common private equity directives), such as external platform access fees, for example, which may hamper competitive efforts. In fact, PE’s ability to generate plum returns may be diminishing in an era of waning profitability. Their potential return on investment may lower over time as previous buyers harvest the more profitable, lower hanging fruit. Not only does a heavier fee environment risk increased advisor attrition, but also remains a bigger regulatory target because lower cost options are available to the clients, who participate in these fee structures.

PE now finds itself middle-aged, having enjoyed success in a marketplace of typically sticky investment assets. A 2021 *Harvard Business Review* commentary offered this perspective:

"There’s trouble on the horizon for private equity. As the 50-year-old industry matures, investment returns are falling. In fact, for the past three decades, average buyout performance—the return a buyout firm generates from buying, improving, and then selling a company—has been on a downward trend."

This begs the question, is there more efficiency and scale that further investment capital can meaningfully amplify? Broker/dealers with high advisory account fees (often multiples of independent RIAs') ultimately brought about an ultra-competitive level of IBDs, who've been winning with niche markets, pricing and service advantages. Advisors take note when back-office support integration provides a simpler, more effective and less costly platform. Furthermore, prospective IBD buyers (likely another PE firm), should weigh the mounting challenges of potentially lower profit margins against the benefits of repositioning, likely requiring a substantial effort and outlay. Effectively, you might say, broker/dealers are bought for their parts—advisors and their clients.

It's yet another reason "stay money" is hot again—advisors holding loans are less inclined to leave. PE's incremental cycles of enhancement functioned effectively for an extensive period: purchase a broker/dealer, introduce and raise fees (a fast but risky way to increase profits), trim expenditures by reducing back-office to advisor staffing ratios, augment advisor headcount—often through substantial forgivable loans—and ultimately sell within a 5-to-7-year window. But how might narratives shift on bumpy roads?

Rebrand or Reposition?

In times of major change, a fresh image may provide an edge. And when strategy doesn't meet expectation, rebranding may get the nod. Reshaping business perception, resulting in a new or improved image is the intent. Updating names, logos, taglines and graphics, particularly for firms bearing tired or outdated names, or tarnished reputations, can be effective. When innovative solutions emerge and competitive bars are raised, rebranding is an unlikely stand-alone. Change conveyed today may remain tomorrow's promise.

Repositioning, however, enables a tailor-made approach, more effectively targeting markets by influencing customers' preferences around their needs. Independent RIAs and innovative IBDs (who adopt RIA characteristics) are succeeding by effectively offering lower overhead and better service to lure prospective advisors, not only dialing in institutional custodians for speed and efficiency, but also improving accuracy and reducing administrative burdens of the chain. While some IBDs may emphasize their scale advantage, it may be smaller regulatory partners, increasingly aligned with trends, who continue to experience steady, incremental, advisor-valued growth.

In addition to independent RIAs, smaller broker/dealers have saddled entrepreneurial spirit to strategically experiment and ride to incremental success. One of our mid-size B/D relationships offer remote tech support and account servicing until 12a.m. weekdays, with home office specialists. Delivering valuable services not only cultivates stronger relationships, but also reduces the inconsistencies of third-party call centers. Smaller communities, therefore, may be poised to better identify offerings to advance practices' success while extending a more personal touch.

Summary

Apprehensive IBDs may hand out "loyalty loans" and deliver new branded advisor swag to stoke hype trains, while they pony-up loans as much as 1% of practices' select assets, tied to 10-year affiliation commitments. And, though private equity investment durations have trended downward, retention packages and expectations for prolonged advisor affiliation remain high. Consolidation- induced transition work can be negligible—if there's no change in client account numbers, account registrations or even the requirement of fresh client signatures—but this hasn't dampened financial attempts to secure advisors long term. It may, however, impact critical enhancement spends. While loans attempt to tie up advisors, they may prove less effective if merely cosmetic, such as name and logo changes.

Innovation is more likely to usher in success for those with an independent RIA blood type, earning advisors a deeper, more loyal customer base. Can IBDs go the distance? Yes, but they may have to execute their own transition for a change.