An Investment Professional's Guide

TO CREATING A CLIENT REFERRAL STRATEGY

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Contents

Introduction

While accepted wisdom holds that clients are the primary assets of any financial services firm, many investment professionals acknowledge that they are not fully optimizing their client relationships—leaving money on the table, reducing effectiveness in operations, and failing to tap into the latent referral potential in their business. Further, many investment professionals indicate that they do not have a systematic approach to growing their relationships.

A more scientific and methodical approach to measuring, managing, and growing your client relationships can substantially and positively impact your business. Drawing on the findings of a recent Advisor Impact study, *Economics of Loyalty*,[1] and on the input from tens of thousands of investors across the country, this guidebook shares techniques to help you move your clients from "merely satisfied" to "actively engaged" in your business. The research suggests a powerful reason for moving clients along this spectrum: the link between actively engaging clients and client profitability.

This guidebook illustrates a step-by-step approach to managing and growing your client relationships, and gives you a better understanding of the tools and tactics you need to improve your clients' levels of satisfaction and to strengthen your relationships with them. This guidebook addresses some of the primary methods of engaging clients in a way that fosters a productive, mutually beneficial relationship.

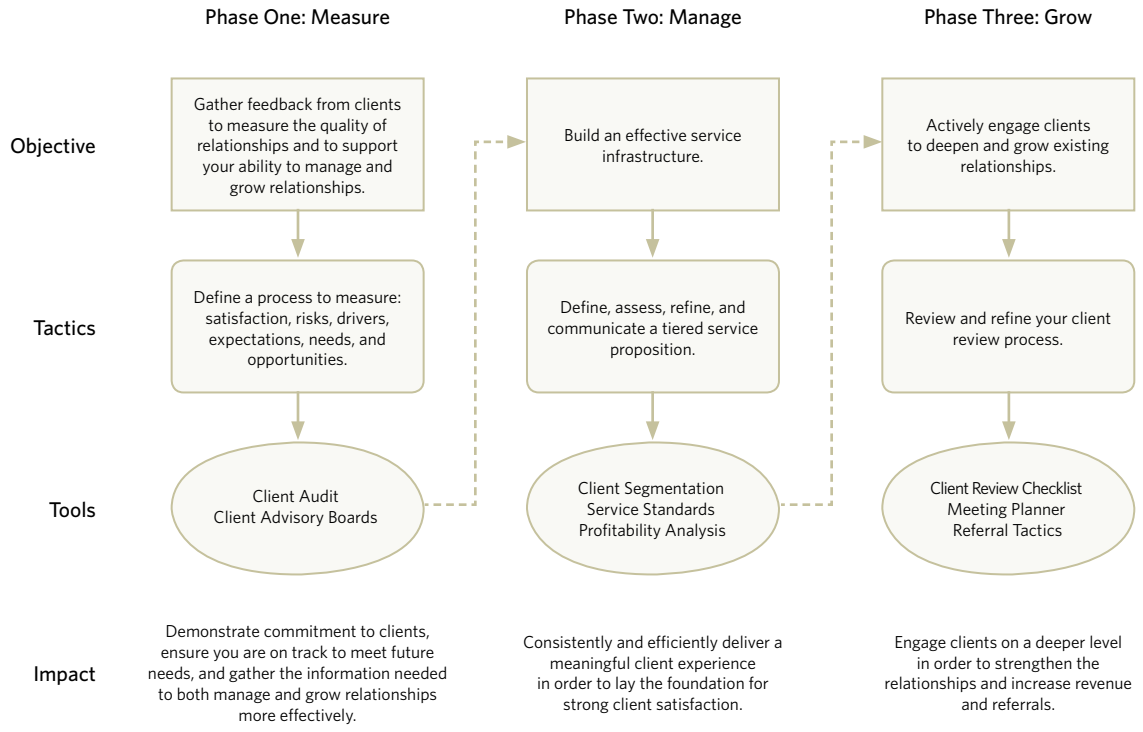
The Client Engagement Framework

Developed by Advisor Impact, the Client Engagement Framework provides a clear method for implementing change, offering a series of tactics and tools to help you execute the ideas presented.

The Client Engagement Framework recognizes that outstanding service delivery is comprised of the trust you engender, the quality of the infrastructure you have built, the extent to which you actively engage each of your clients on a one-to-one basis, and the extent to which the latter two activities reflect what is most important to your key clients. While you may already use some of the strategies presented in the framework, the additional information can help you assess your performance and identify any gaps. You can also ensure that your approach to client management is integrated, from measuring your performance, to building an appropriate infrastructure, to personally engaging your clients. The Client Engagement Framework can help you unlock the hidden value of your existing client relationships.

[1] *Economics of Loyalty*, by Advisor Impact, sponsored by Vanguard, 2008.

The Client Engagement Framework



The Client Engagement Framework includes three distinct phases that together allow you to maximize the value of your existing client relationships:

> **Phase One: Measure.** In order to improve the quality of client relationships, you need a measurement tool to gauge how you and your team have performed in the past and to help you understand client needs and expectations into the future. Specifically, the Client Engagement Framework helps you assess four areas of your business.
– Your offer
– Your service delivery process
– Your relationships
– Your opportunities

> **Phase Two: Manage.** The information gathered in the measurement phase will provide you with a better sense of what your clients need, want, and expect. As you move beyond measurement, you can use that client feedback to evaluate and refine your business model.
– Assess your current service delivery process
– Structure a meaningful and segmented offer
– Identify opportunities to streamline service

> **Phase Three: Grow.** Building on the management phase, you can actively engage your clients in order to meet your objectives.
– Build deeper personal relationships
– Manage client expectations
– Uncover revenue opportunities
– Increase referrals

The Research

The Client Engagement Framework draws on extensive research—including feedback from 1,000 investors who responded to the *Economics of Loyalty* study, as well as findings from 60,000 investors who provided feedback as part of client survey efforts conducted through Advisor Impact's Client Audit Program.

Advisor Impact's data shows that clients typically fall into one of four groups: disgruntled, complacent, content, and engaged.

The Group	Percentage of Clients	Overall Satisfaction Rating with Their Primary Advisor (Out of 10)
Disgruntled Clients	17%	6.1
Complacent Clients	19%	7.9
Content Clients	31%	8.6
Engaged Clients	33%	8.8

Source: *Economics of Loyalty*, Advisor Impact, 2008.

In addition to the satisfaction ratings above, a number of key themes surfaced in the research. Consider the following:

> **Client Loyalty.** All complacent, content, and engaged clients are technically "loyal" because they might not have thought of ever leaving their current investment professional. However, as some of these clients may not be highly satisfied, client loyalty is a relatively hollow indicator of the quality of the client relationship. Although you want loyal clients, it is not particularly helpful to measure client loyalty—at least not as an end in itself.

> **Client Profitability.** As we move up to increasing levels of client satisfaction or "engagement" there is an impact on share of wallet, the scope of cross-selling, and the extent to which you work with other family members, and referrals.

> **Leveraging Commitment.** Although a majority of clients describe themselves as "satisfied," all satisfied clients are not equal. Although the difference in average satisfaction ratings between content and engaged clients is not large (8.6 vs. 8.8, respectively), there is a potentially large difference in the profitability of these relationships as engaged clients are more likely to refer or introduce additional relationships. As a result, client satisfaction tends to be a poor predictor of referral potential.

Drawing on these findings, the Client Engagement Framework helps you move more clients to the highest level of commitment. In order to understand how clients think along the spectrum from content to engaged, three indices were created that summarize 21 different measurements of service. Recognizing that clients do not think in terms of 21 separate service elements, the indices categorize these aspects of service into meaningful "buckets" and assess performance against these broader definitions. The indices are described below, and the table that follows provides more detail on what is included within each broader category.

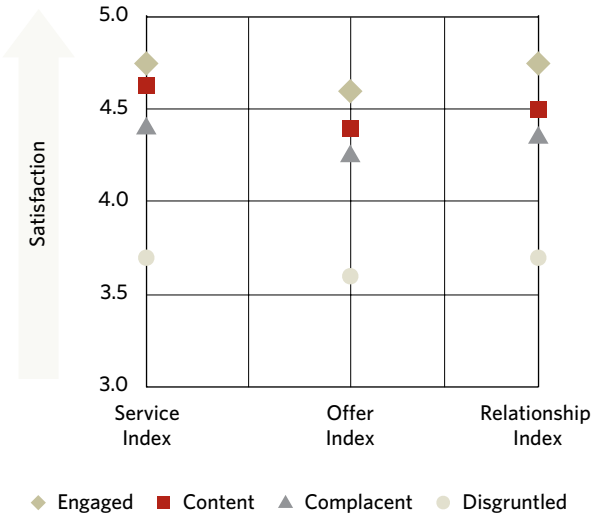
> The **Service Index** comprises the aspects of service that speak to the way the offer is delivered to a client, including responsiveness, contact levels, and confidence in the team.

> The **Offer Index** comprises the aspects of service that communicate the scope or quality of the underlying offer, including the range of services or investment performance.

> The **Relationship Index** comprises those aspects of service that are more intangible and reflect how the investment professional is perceived and how he or she communicates, including trust and depth of relationship.

Service Index	Offer Index	Relationship Index
My calls and emails are returned promptly.	Access to other professional advisors (such as CPAs) is provided when necessary.	My investment professional takes a proactive approach to managing my plan or portfolio.
The frequency with which my investment professional contacts me meets my needs.	I am comfortable with the level of risk in my plan or portfolio.	My investment professional fully understands my goals for the future.
My investment professional has clearly defined the level of service I can expect.	The range of services that my investment professional provides meets all of my financial needs.	Difficult financial concepts are clearly explained.
My statements are clear and easy to understand.	The long-term performance of my plan or portfolio meets my expectations.	My investment professional is trustworthy.
I am confident in the skills of my investment professional's support team.	I have a clear plan in place for retirement.	I have a strong personal relationship with my investment professional.
My account is handled with few errors.	My investment professional provides good value for the fees I pay.	My investment professional treats me with respect.
Any problems I encounter are resolved quickly.		My investment professional demonstrates that he or she values my business.
		My investment professional is reliable.

The chart below presents the average satisfaction rating for each index and by satisfaction group. The findings reveal that gaps in service represent the biggest difference between complacent and content clients, suggesting that addressing client management issues is a primary strategy to move clients to the next highest level. Note, however, that the offer and relationship indices show the greatest differences between content and engaged clients, suggesting that these service elements drive client engagement. The gaps are not large, but they are statistically significant. Disgruntled clients generally are negative across all service dimensions, suggesting a negative halo effect.



From this research we can conclude that the process of engaging clients begins with a strong service foundation linked to infrastructure. However, it also contains a warning: Great service delivery is not enough to actively engage clients or improve the quality of the relationships. Instead, you need to focus on enhancing your offer and deepening your relationships to grow those clients over the long term. These findings are elaborated in the three phases of the Client Engagement Framework.

Phase One: Measuring Client Relationships

Objective: Measure the quality of client relationships using feedback from clients, in order to gauge your ability to manage and grow client relationships.

For most investment professionals, one of the easiest ways to measure success is through financial indicators such as increases in number of clients, assets under management, and client referrals. The Client Engagement Framework gives you another data point: client feedback. Applying a measurement process allows you to look back at how you and your team performed in meeting client expectations, and also to look forward to ensure that you are positioned to meet changing client needs. As a result, while you may (and should) track your business financials, monitoring client feedback and satisfaction becomes a primary criterion to measure the depth and quality of your client relationships.

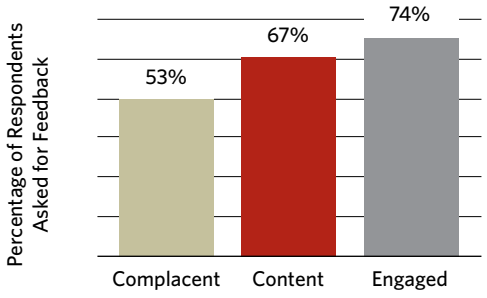
Financials are important, yet they are a lagging indicator of success—telling you how you have done in the past. Assessing the changing needs and expectations of your clients is a leading indicator of success, revealing whether you are on track to meet clients' needs in the future.

The Research: What Does It Show?

A minority of investment professionals use a formal survey process to measure the quality of client relationships, suggesting that the majority of your peers take a less scientific approach to managing client relationships. The measurement phase is a formal process that is repeatable and allows you to track performance on key drivers of satisfaction, quantify opportunity among existing clients, identify gaps, and over time, understand how clients perceive the value of the entire relationship.

Our research shows that a quarter of clients have been formally surveyed by their investment professional, although a much higher number say they have been asked for feedback using less formal means. As the next chart suggests, asking clients for feedback is linked to actively engaging clients; having a formal process in place is an important part of being able to utilize the information effectively.

Q: Has your financial investment professional ever asked you for feedback on the service that he or she provides?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

Measuring Client Relationships: Tactics

The methodology in the measurement phase of the Client Engagement Framework will provide you with ongoing feedback in six core areas, described below. The following chapters provide some of the latest industry findings on each of these metrics and focus on how you can use the information in your business.

Metric	Objective
Satisfaction	Understand overall satisfaction with the relationship and satisfaction with very specific aspects of the service delivery process. Satisfaction encompasses service, offer, and relationship.
Risk	Drawing on the satisfaction findings, identify which, if any, clients are at risk.
Drivers	Uncover the service drivers that clients consider most important and the perceived value of your communications (such as reports, newsletters, and events).
Expectations	Gauge client expectations and preferences regarding service delivery, including the number and structure of reviews and client views on working with other team members.
Needs	Uncover additional client needs and opportunities by assessing service gaps and gauging awareness of the full range of services that you provide.
Opportunities	Identify those clients who work with other advisors, are comfortable providing referrals, or who may represent an opportunity to build your center of influence network.

Consistently measure satisfaction, risks, drivers, expectations, needs, and opportunities to gauge the quality of client relationships.

Successful implementation of the Client Engagement Framework hinges on having a formal process for gathering feedback, rather than asking clients for input on an informal basis. This ensures you have a system in place to track change over time, identify trends, and uncover specific opportunities. By monitoring the following, you can make your client feedback more meaningful:

> Change, over time, of all key metrics

> Comparison of top client responses to the average

> Identification of satisfaction gaps between how you are performing and what is most important to your clients

> Client-by-client feedback on needs, expectations, and opportunities

> Assessment of client hot-buttons and opportunities, including share of wallet

> Comparative assessment of satisfaction between your firm and a client's other professional advisors

> Comparison of investment professional-specific ratings in multi-investment professional practices

Establishing a Personal Benchmark

Although industry benchmarks may be helpful in identifying and understanding macro trends and may offer comparison vis-à-vis other businesses, what ultimately matters most is the extent to which you are meeting or exceeding your clients' expectations, rather than how you compare to your peers.

Averages are often misleading because they may or may not specifically represent the needs and expectations of your clients. Therefore, all investment professionals need to implement a disciplined process to gather and use client feedback in their own businesses.

By establishing a baseline set of questions to ask your clients every 18 to 24 months, you will begin to create your own personal benchmark. This will render industry benchmarks considerably less important to your business because you are comparing yourself to the only benchmark that really matters—your clients' expectations. Over time, you may also choose to add additional questions that reflect issues that are important to your business; however these should complement, not replace, a baseline set of questions asked regularly for comparative purposes. You should not expect to see large changes in performance from one survey to the next, but creating this discipline around benchmarking allows you to note improvements or declines in key metrics. You may want to consider linking that feedback to some portion of your team compensation.

Measuring Client Relationships: Tools

The tools that you choose to measure the quality of client relationships over time will depend largely on your objectives. Below we highlight two useful tools to consider:

> **Client Surveys** allow you to gather ongoing and objective feedback that can be used to engage a large number of your clients.

> **Client Advisory Boards** allow you to gather important qualitative insights on issues that are of importance to your clients now and into the future.

Client surveys and advisory boards are complementary methods of gathering feedback from your clients. Each helps to achieve different objectives, as described above, and the information gathered in one supports and builds on the information gathered using the other. For example, if you are considering a change to the way in which you market and position your firm, then you might have an in-depth discussion with your advisory board on the value you deliver. Through that process you could arrive at three value propositions that you are considering using, which can be evaluated more scientifically through a written survey.

Take Action: Using Written Surveys to Gather Client Feedback

For many investment professionals, conducting a client survey is like speaking in public—one of life's great fears. The fact is, however, that client surveys not only demonstrate your commitment to clients, but can positively impact your bottom line.

A minority of investment professionals surveyed their clients in the past 12 months, and while many point to lack of time or expertise as the primary business obstacles, the fear factor tends to top the list of self-imposed barriers. Some investment professionals are afraid to hear what their clients will say—in both good and bad markets.

The good news is that research does not support any real reason to be afraid of hearing what your clients think. The theoretical argument is that in a competitive market, such as financial services, existing customers tend to be highly satisfied, on average—otherwise they would leave. That argument is supported by research conducted by Advisor Impact. During the past 12 months, Advisor Impact has surveyed more than 50,000 clients. No investment professional received an overall satisfaction rating of less than 4 out of 5. That process also revealed that up to 24 percent of clients are, in fact, at risk of defecting. Even if your clients are satisfied, there are strong arguments for using client feedback to understand more about the value you deliver, to uncover opportunities, and to identify ways to streamline service.

The news gets better: a comprehensive study published in 2002 in the *Journal of Consumer Research* reached some stunning conclusions in favor of surveys. The study concluded that the clients of a large financial institution who were surveyed, were more than three times as likely to have opened new accounts, were half as likely to have defected, and were more profitable than the clients who were not surveyed. Further, they found that these results extended for up to 12 months after the survey and peaked after three months. There are several explanations for this phenomenon. The first is that surveys remind clients that they appreciate the service you offer. Clients are not likely to spontaneously have positive thoughts about you unless asked explicitly. The second explanation is that by asking clients for their feedback on specific services, you increase awareness of those offerings.

There are three ways to elicit feedback from your clients: an ad hoc approach like asking clients for feedback at the end of a meeting, a telephone survey, or a written survey. To decide which route to take, you will need to weigh the costs of the program against the depth of information you will receive and the extent to which feedback is provided honestly. With that in mind, written surveys tend to be the best option. While more expensive, they allow you to ask a large number of questions, give clients time to respond thoughtfully, and offer the option of anonymity.

You should know what you will do with the results for every question in a survey and be sure the questions are relevant. For example, if you do not control client statements at your firm, do not ask about satisfaction with client statements.

Top 10 Survey Tips

1. Include a deadline so that you can combine and analyze the results promptly.
2. Include an incentive, such as a drawing for a dinner for two, and link that to your deadline.
3. Make the client's name optional.
4. Include at least one open-ended question.
5. Ask specific and actionable questions regarding different aspects of the service you provide.
6. Focus on aspects of service that are within your control.
7. Test your survey with three to five clients.
8. Include a self-addressed, stamped envelope.

9. In the letter that accompanies the survey, explain the importance of the survey and how you will use the results.
10. Send a follow-up letter to all clients, whether they responded or not, to highlight the positive results, reinforce key strategic messages, and outline any changes you are making as a result of the survey.

Remember, it is action that counts: If you do not act on the results of the survey or implement the requisite changes, then the process may not be as positive. Or worse, you may miss opportunities to improve or grow client relationships.

Julie Littlechild is the President of Advisor Impact, a firm that helps advisors use client feedback to improve client profitability.

Take Action: Consider Client Advisory Boards

Client Advisory Boards have emerged as a powerful business development vehicle for investment professionals, and are often effective at strengthening client relationships and complementing other valuable tools, such as client surveys.

What are client advisory boards? Should you consider using one?

A client advisory board is a select group of clients, usually from 10 to 14, who meet face-to-face in a professionally designed and facilitated session for four to eight hours. The board members keep a firm up to date on their current and future needs and interests, provide perspective on industry trends, brainstorm or review new initiatives, and offer timely advice. Best used strategically, client advisory boards are not focus groups or gripe sessions and are best run by trained, professional facilitators. Once established, they usually meet two to four times annually.

Firms have found that ongoing client advisory boards can be a sustainable competitive advantage, and they almost always increase:

> Referrals via board members who, on average, provide two to three times more referrals than non-members.

> Sales among board members directly.

> "Wallet share" among current clients because the advisor is more educated about their concerns and needs, and they are more familiar with the firm and its products.

> Client retention, as additional meaningful contact often creates more client loyalty.

The first step in developing a client advisory board is to decide what you want to learn—what perspectives might be valuable for your practice. What you learn can have value, even if it is a surprise.

Second, make sure the right clients are in the room. The members may vary, but a first meeting should include key clients and a mix of other clients, perhaps one or two from market segments with greater potential.

The third and fourth steps are to plan and conduct a session. Investment professionals often host client advisory boards in the evenings to accommodate their busy clientele. You will need an agenda with goals, a a process, and ideally, an experienced facilitator. You may learn more as a participant of the group than you would trying to focus on facilitation.

Contributed by Bruce Peters, Chief Executive Officer of CABHQ, a consulting firm based in Rochester, New York. He has conducted more than 450 customer advisory board sessions and counts among his clients many individual financial advisors and firms.

Phase Two: Managing Client Relationships

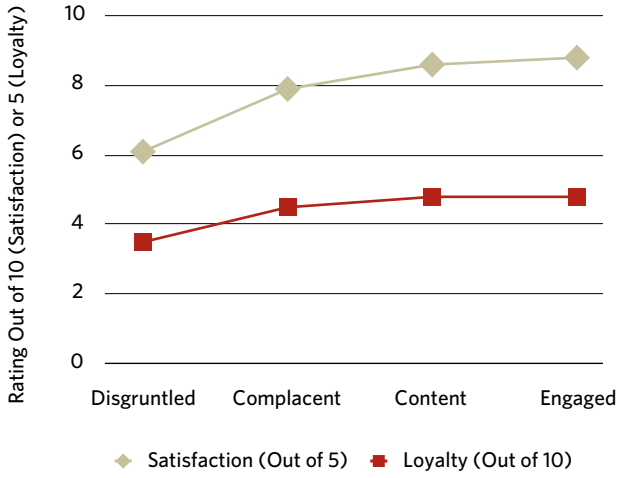
Objective: Build an effective service infrastructure driven with input from the measurement phase.

The Client Engagement Framework recognizes that building quality and sustainable client relationships is about engaging individual clients, with a strong service foundation as a lever. As a result, it demands that you build an infrastructure that allows you to consistently and efficiently deliver a meaningful experience to all client segments. Structuring or refining that foundation can be directly impacted by the information you gather during the measurement phase. Specifically, to the extent that you have measured the five metrics identified in this chapter, these may contribute to your success in structuring a business that is profitable and meets the needs of your clients.

Client Metric One: Satisfaction

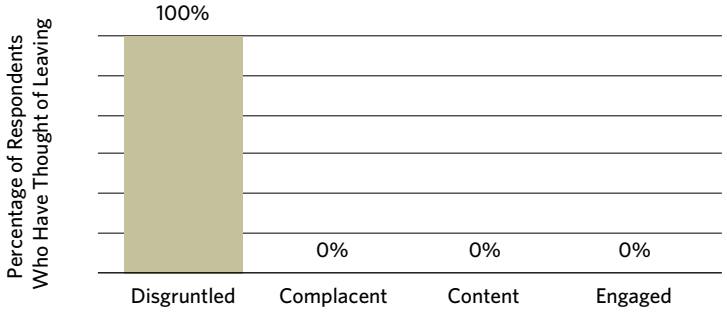
We know that clients are, in general, very satisfied with their investment professional relationships. We also know that clients, whether satisfied or not, are also quite loyal. The following charts clearly demonstrate that satisfaction and loyalty are correlated. Note that the satisfaction scale is 1 to 10 and the loyalty scale is 1 to 5, so we are only focused on the pattern of the two lines. However, loyalty is ultimately better reflected as a yes or no answer. For example, "I have thought about leaving my investment professional" or "I have not thought about leaving my investment professional." The second chart shows that even those clients who are somewhat neutral about the relationship are technically loyal, but they clearly do not represent quality client relationships.

Beige line: Please rate your overall level of satisfaction with your primary investment professional.
Red line: How likely are you to continue to use your financial advisor to manage your financial plan or portfolio in the next 12 months?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

Q: Thinking about your current investment professional, which best describes your desire to stay with him or her?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

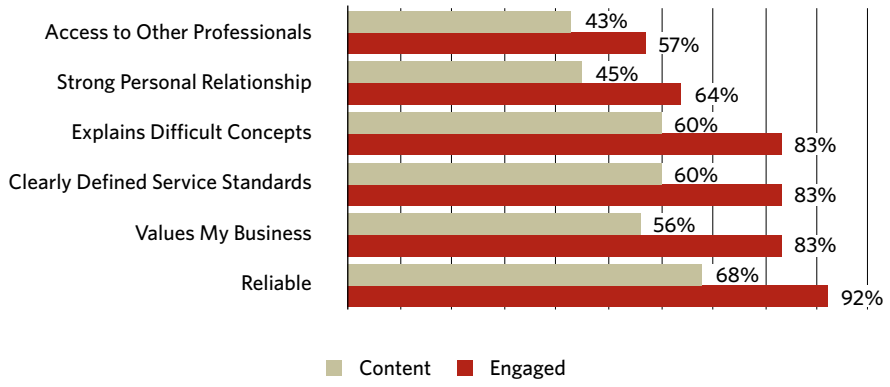
Effective measurement of satisfaction should not be the equivalent of a high-level pat on the back, but rather a more rigorous analysis of how your firm measures up against client needs and expectations. Satisfaction is a difficult concept to explain because—for all the things that consistently drive some parts of satisfaction among clients—other very individual and personal things also influence satisfaction. For one client this might be the location of the business, and for another it could be the extent to which they are greeted in a welcoming manner.

Advisor Impact research tracked 21 different aspects of service that, statistically, explain about 60% of overall satisfaction with an investment professional. Note the differences in the last two columns in the table below as they help to explain some of the differences in the engaged client experience.

Service Dimension	Average Satisfaction Rating (Out of 5)	Percentage of All Clients Rating	Percentage of Engaged Clients
Working with an investment professional who is trustworthy	4.7	79%	94%
Working with an investment professional who is reliable	4.7	76%	92%
The accuracy with which my account is handled	4.6	74%	88%
Returning my calls and emails	4.5	75%	87%
Being comfortable with the level of risk in my plan or portfolio	4.5	62%	77%
Achieving long-term performance that meets my expectations	4.5	55%	72%
Working with an investment professional who fully understands my goals for the future	4.5	60%	78%
The speed with which any problems are resolved	4.5	70%	85%
Working with an investment professional who treats me with respect	4.5	77%	93%
Receiving good value for the fees I pay my investment professional	4.4	54%	71%
Working with an investment professional who demonstrates that he or she values my business	4.4	63%	83%
Working with an investment professional who clearly communicates the level of service I can expect	4.3	54%	83%
Receiving statements that are clear and easy to understand	4.3	54%	65%
Working with an investment professional who takes a proactive approach to managing my plan or portfolio	4.3	50%	67%
Working with an investment professional who can clearly explain difficult financial concepts	4.3	52%	71%
Having a clear plan in place for retirement	4.2	53%	69%
Having confidence in my investment professional's support team	4.2	57%	72%
Having access to services through my investment professional that meet all of my financial needs	4.1	56%	71%
Having a strong personal relationship with my investment professional	3.8	45%	64%
The frequency with which my investment professional contacts me	3.6	58%	73%
Having access, through my investment professional, to other professional advisors	3.3	43%	57%

The difference in the client experience between the content client and the engaged client is demonstrated in the chart below. When comparing content to engaged clients, six of the 21 dimensions that were tested are substantially different for the engaged clients—and all six are drawn from the offer and relationship indices described on page six.

Q: How much do you agree that your investment professional is satisfying you, when you think about each of the following statements:



Source: *Economics of Loyalty*, Advisor Impact, 2008.

It is best not to review satisfaction information in isolation because clients apply different values to these aspects of service. As a result, it is important to look at "satisfaction gaps"—these will tell you if there are any performance issues related to things that are most important to clients.

Satisfaction Gap = Average Importance Rating – Average Satisfaction Rating

Client Audit research suggests that there are three satisfaction gaps among clients:

> Extent to which investment performance meets expectations

> Extent to which investment professional is proactive in managing the relationship

> Client confidence that plan will allow them to reach their goals

Client Metric Two: Risk

Although a majority of clients are very satisfied with their investment professional relationship, there are some clients who are at risk, either because they have actively thought about leaving or because they are complacent. Complacent clients (who are statistically neutral) may not be at a high risk of defection; however, they may carry a reputational risk or present an energy drain for your team.

The *Economics of Loyalty* study shows that 17% of clients have thought about leaving their investment professionals and another 19% are complacent. As a result, 36% of clients, on average, represent some form of risk to the investment professional. It is interesting to note that among those who conducted a client survey using Client Audit, only 5% fall into this category, rating their investment professional a three out of five or less on overall satisfaction.

Perhaps more interesting is the high degree of inertia among clients. Among the 17% who had thought about leaving their investment professional, a very small percentage had done anything about it, as the chart below demonstrates.

Q: Thinking about your current investment professional, which best describes your desire to stay with him or her?

Statement	Percentage of Respondents
I have considered switching to a new investment professional but have not taken any steps to do so.	10%
I have considered switching to a new investment professional and have made some preliminary inquiries.	4%
I have considered switching to a new investment professional and have taken some steps to do so.	3%

Source: *Economics of Loyalty*, Advisor Impact, 2008.

Client Metric Three: Drivers

As indicated in satisfaction metrics, understanding what is most important to your clients is a way to ensure that you are delivering on, or exceeding, expectations on the core drivers of value. For example, most clients agree that certain aspects of the relationship are always important.

The aspects of service that resonate most with virtually all clients are:

> Having an investment professional who is trustworthy.

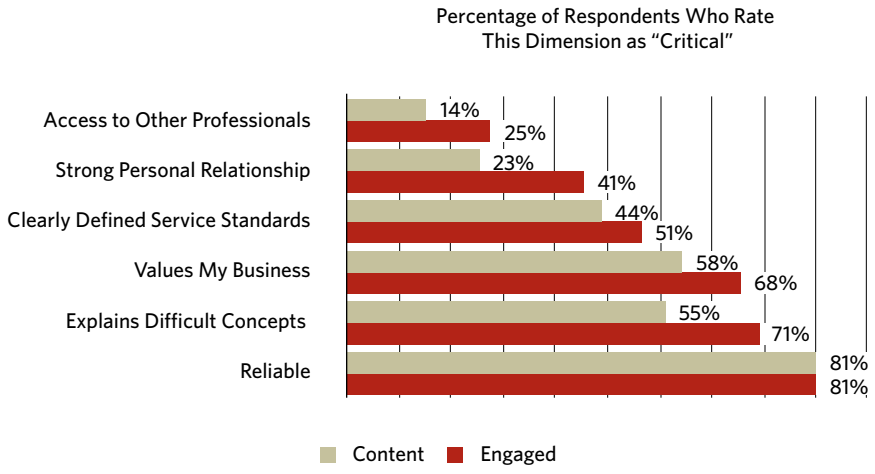
> Having an investment professional who is reliable.

> The accuracy with which the account is handled.

> The speed with which calls and emails are returned.

When we highlight the differences between client segments, high-net-worth clients with $5 million or more of investable assets rate the importance of having a strong personal relationship much higher than those with fewer assets. Of the high-net-worth clients surveyed, 48% rate this aspect of service as critical.

Q: To what extent are the following statements important to you when you think about your relationship with your investment professional?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

Terms like "trust" and "reliability" may be perceived as somewhat vague, but it is important to remember that these words resonate with clients. Your job is to determine how you will demonstrate that you are delivering on those attributes, and then incorporate that into your service delivery process. Note that when you compare content and engaged clients on what is most important, the biggest differences are in the strength of the personal relationship and the extent to which the investment professional communicates clearly and effectively.

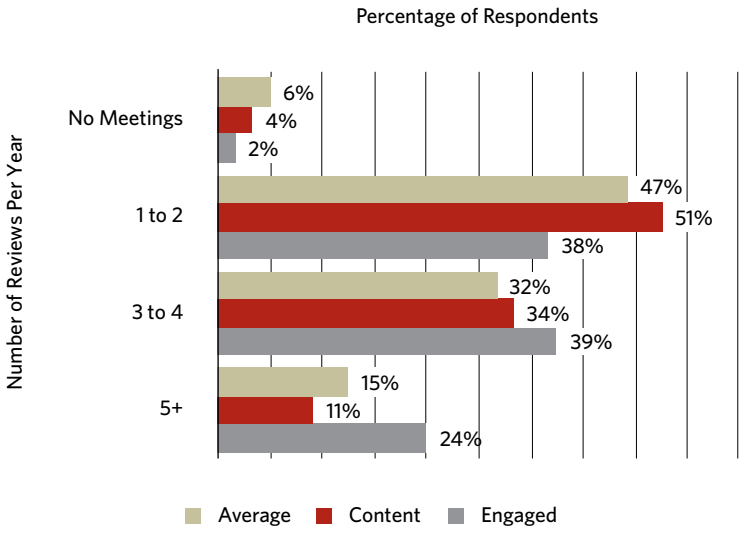
Client Metric Four: Client Expectations

One of the critical benefits of gathering feedback in order to measure the quality of client relationships is that the process provides you with important insights into the service expectations of your clients. In some cases, those expectations may need to be managed up or down, but either way, the information allows you to assess your current service proposition.

According to Client Audit data, the average client wants 2.6 portfolio reviews per year, and roughly every third review could be done by telephone. However, averages are not particularly helpful when it comes to assessing client contact frequency. Clients bring different value to your business and, as a result, they should receive different levels of contact. Unless all of your clients have a very similar profile, tiered service levels will be the most appropriate choice.

The charts below provide information on the average client population of those who are content and those who are engaged. The averages shown will give you a sense of what is expected at a macro level—and the differences between content and engaged provide some important insights. Engaging clients is, at its core, an active process (described in greater detail in phase three) and this is reflected in the higher expectations among those engaged clients.

Q: In a typical 12-month period, how often do you expect to meet with your investment professional (either face-to-face or by telephone) to review your financial plan or portfolio?



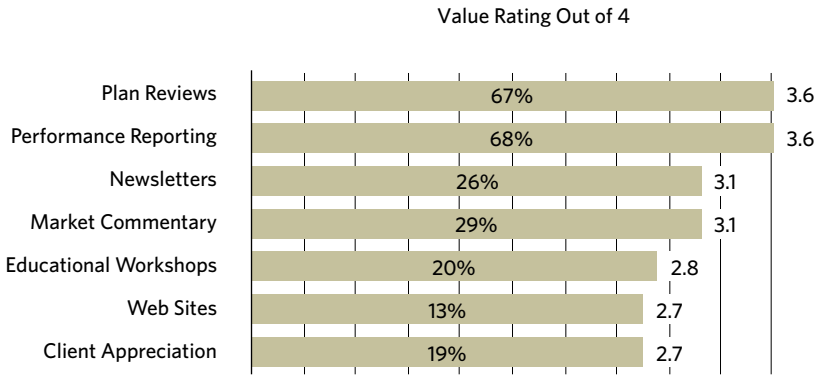
Source: *Economics of Loyalty*, Advisor Impact, 2008.

A custom measurement process allows you to learn more than industry averages and can gather very specific feedback on the communications you provide or activities that you hold for your clients. Some investment professionals find that they have been investing a great deal of time and effort in communications that are not highly valued by clients.

In general, clients give the highest value ratings on core activities, such as annual portfolio reviews, followed by educational communications, like workshops, and then those things that might best be defined as value-adds, such as client appreciation events. Although clients may enjoy the latter, they may not see these as part of the real value that is delivered.

The following chart draws on the data generated through Client Audit, where a wide range of very specific activities were grouped into seven categories. The ratings show the perceived value, with a four being very valuable.

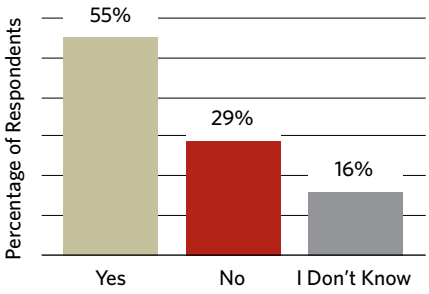
Q: Please rate the following communications or activities that you receive from your investment professional, in terms of their value to you. (Shows average score and percentage rating as "very valuable.")



Source: *Economics of Loyalty*, Advisor Impact, 2008.

The findings below, for example, show that a relatively high percentage of clients indicate that receiving educational information on investments, insurance, and the markets is of value.

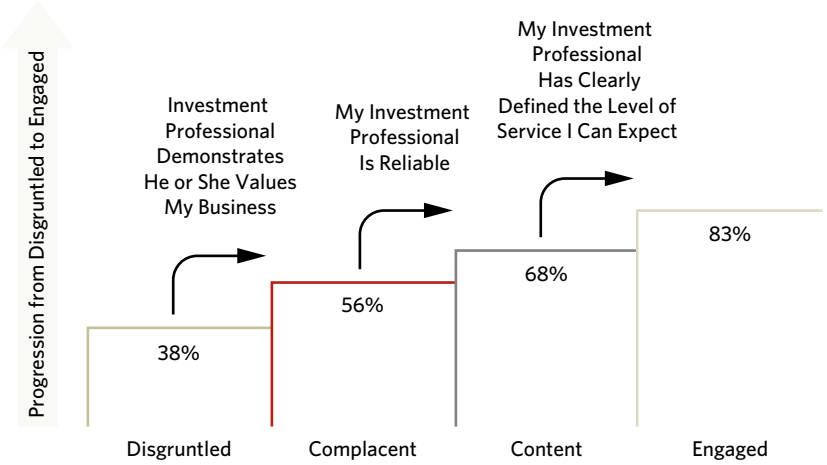
Q: Do you feel it is important for your investment professional to provide you with educational opportunities about the markets, investments, and insurance, through newsletters or workshops?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

Communicating the Plan

Research suggests that defining a strong service foundation is important, but it is also critical to help clients understand what they can expect. A clear definition of service standards helps clients understand the value that you deliver, not only when you are across the desk, but also when you are working on their behalf behind the scenes. The chart below is based on the ratings provided in conjunction with a "decision-tree analysis," which is used to test different actionable variables based on the likelihood that they will help to move clients from one stage to the next. The chart below suggests that clearly defining service levels is an important driver in moving clients from content to engaged.



Based on decision-tree analysis and top box scores of key drivers.

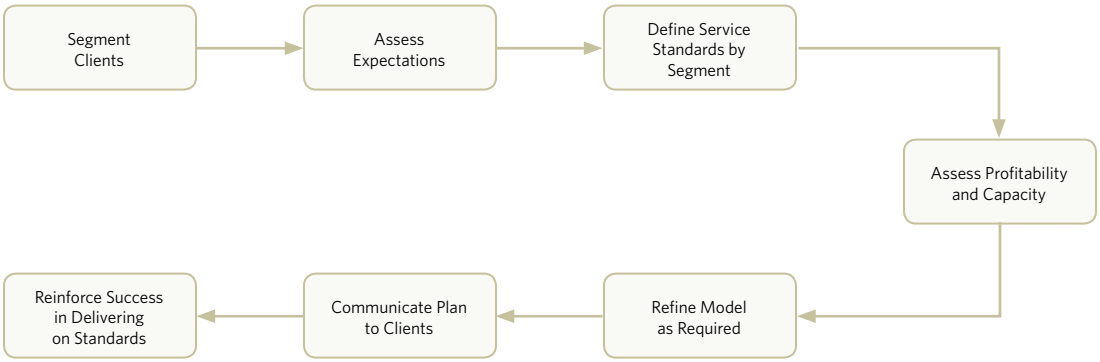
Managing Client Relationships: Tactics

All of the client data points to a simple and enduring fact: In order to build deep client relationships, you must first create and consistently deliver on a well-defined client experience. Receiving a level of service that is both meaningful and well-communicated drives satisfaction among clients—making the relationships yours to build and the clients yours to engage.

Tactically, this means defining, assessing, refining, communicating, and reinforcing clear service standards among your clients. Getting all of that right begins with a solid understanding of client expectations and a segmented client base. There are seven steps to ensuring that your infrastructure will deliver a level of service that resonates with clients. Equally important is ensuring that you have the resources to deliver, and that the plan is profitable in the long run.

The steps for creating service standards:

1. Segment clients. Categorize clients based on the net value they bring to the business.
2. Assess client service expectations. Gather more or better information on what clients need, want, and expect as part of a meaningful client experience.
3. Define service standards by segment. Set clear goals for the scope of direct contact, range of services, and other communications such as education or client appreciation.
4. Assess client profitability and practice capacity. Based on the service offering you have defined (range of service and service standards), determine the cost of service delivery and the number of clients you can manage with available resources.
5. Refine service model and service standards as required (for example, if profitability or capacity issues emerge as described in step four).
6. Communicate plan to clients. Clearly communicate what clients can expect to receive throughout the year.
7. Reinforce success delivering on the plan. Review your success in delivering on the standards with clients on a regular basis.



It is impossible to think about laying a strong foundation without discussing both team and technology; both contribute to your ability to deliver on the client experience you define. These components of your service foundation are outside the scope of this guidebook, but worth addressing as key issues. The Client Engagement Framework focuses on defining a meaningful and profitable client experience, and team and technology are closely linked to your ability to consistently deliver that client experience.

Managing Client Relationships: Tools

Your measurement process will deliver the information you need to structure service standards that are meaningful for each client segment. Below are some additional tips on several other aspects of the process to help you lay a strong service foundation.

Take Action: Client Segmentation

Segment your clients based on the value that they bring to the business rather than a simple top-line descriptor such as revenue. By focusing on the "real value" of the relationship, you not only capture current value for your firm, but the future and indirect revenue, such as referrals and potential for growth.

Your segmentation model should reflect your own goals for the business. However, rating your clients on the following will provide a strong segmentation model based on the profitability of the relationships:

> Assets under management

> Revenue generated in past 12 months

> Referrals provided in past 12 months

> Potential for growth (cross-selling, cross-generation, or income)

> Time required to service relative to value of client household

Although different aspects of a relationship are important depending on your individual goals, the methodology for segmentation is consistent and includes the following steps:

Define client value: Identify the drivers of profitability, or value, in your client relationships.

Quantify client value: Create a rating system to gauge each client on each driver of value.

Test rating system: Rate a subset of clients in order to test the suitability of your rating model.

Rate clients: Consider each client on each driver and sum up those ratings to generate a composite value rating.

Define segments: Identify scoring ranges that link composite scores to individual segments (such as "platinum" clients).

Track segmentation data: Enter segment data in your contact management system.

Define processes: Establish processes that update client segment ratings and rank new clients as they are added to the business.

Define Service Standards

Service standards should be clearly quantified by segment and include all of the primary communications that a client can expect over the course of a year. Use these questions to guide you in mapping out your service standards for each segment:

> How many plan or portfolio reviews will the client receive in a 12-month period?

> What is the split between face-to-face and telephone reviews?

> Who on the team is responsible for holding those meetings?

> What is the range of services that you provide for clients in this segment (e.g., estate planning, tax planning)?

> What service standards have you set (e.g., how quickly you will respond to calls, resolve problems)?

> What activities or communications will you provide to educate or show appreciation to your clients?

Take Action: Assess Profitability and Capacity

By specifically defining and quantifying service standards for each segment, you will be in a position to assess client profitability and capacity, ensuring that you have the resources in place to meet client needs. Doing so allows you to assess profitability at the client level, in addition to the analysis you might already perform to assess profitability at the firm level.

When it comes to client profitability, many investment professionals simply focus on the average cost per client, calculated as the total costs of the business divided by the number of clients. Often that calculation does not include the cost of the investment professional's salary or reflect the fact that you invest in different clients in different ways. To get closer to the real costs of service delivery, try the following three-step process that reflects how you really invest in your clients.

1. **Establish a fixed cost per client.** The first step is to identify the fixed costs of managing a client relationship. Fixed costs are those that are equal across all client relationships, such as office space. To calculate fixed costs:

   a. Map out all of your business expenses.

   b. Identify and subtract any costs that relate to acquiring new clients, such as advertising and those client management costs that are not equal across all clients, such as client appreciation activities.

   c. Divide the remaining number by your capacity number of client households.

The resulting number can and should vary greatly from one investment professional to another, depending on the level and scope of service that you provide. Your fixed cost is the cost of client management before you invest any time in that relationship.

2. **Assess your time cost.** Assessing the cost of your time may be more of a challenge in our industry than others; however, understanding how much time you invest in client relationships is critical to understanding profitability, as the time you spend is often your greatest cost. Calculate as follows:

   a. Estimate time invested in a typical client in each segment.

   b. Divide your salary (or establish a proxy if you do not pay yourself a defined salary) by 2,080 hours (a standard 40-hour work week).

   c. Multiply a times b for a estimated time cost for each segment.

There should be a difference between the cost of your time and the price of your time; the latter includes a profit margin that would not be included in this analysis.

3. **Add in your variable costs.** Variable costs are any costs that may change by client segment, such as client social activities that are designed for your top clients. Some investment professionals will also include staff costs in this category. The process is as follows:

   a. Identify the total variable client costs in your practice.

   b. Allocate that investment by segment.

   c. Divide by the number of clients in each segment.

4. **Add it up.** Your total cost to deliver service by client is the sum of these three separate costs and represents the real cost of service delivery.

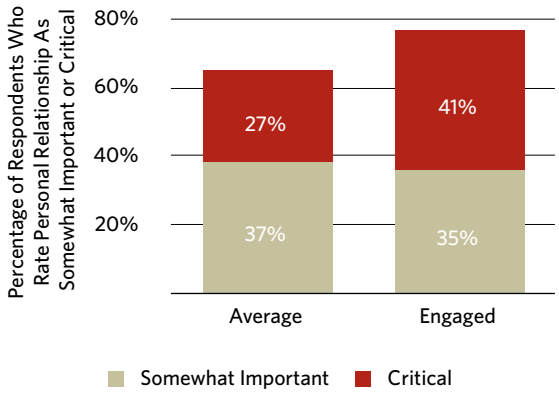
Phase Three: Growing Client Relationships

Objective: Actively engage clients to deepen and grow existing client relationships.

The Client Engagement Framework recognizes that once you have built a solid foundation of satisfied clients and are able to consistently and efficiently deliver on the service standards you have set, there is a substantial opportunity to grow those client relationships.

Continuing to build deeper relationships ensures client retention, but also uncovers and capitalizes on potential revenue or referral opportunities. Equally important, the Client Engagement Framework recognizes that the process of growing these client relationships is one that must be actively supported by the strength of your individual client relationships. The importance of the personal relationship is underlined in the chart below.

Q: To what extent is a personal relationship somewhat important or critical?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

It is during that face-to-face meeting—when you are focused on the needs and goals of the client—that opportunities are uncovered. These opportunities may include increasing the number of services utilized:

> Share of wallet

> Client referrals

The Research: What Does It Show?

Clients may or may not see the need for additional services, which means that the investment professional must educate them on what is important for their unique circumstances. When asked about their needs in the *Economics of Loyalty* study, clients mentioned estate planning, insurance, and tax planning. More specifically, the responses in the following table show the percentage of clients who said they are interested in learning more about a particular service when surveyed as part of the Client Audit Program.

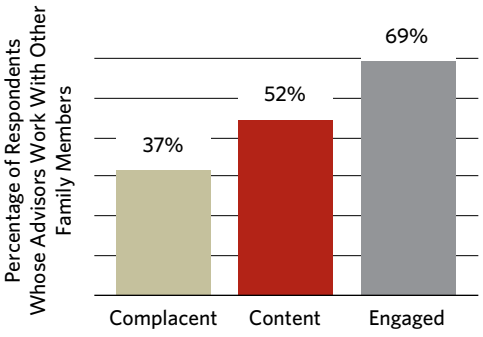
Q: Which, if any, of the following are you interested in learning more about from your financial investment professional?

Service	Yes, I Am Interested in Learning More	I Do Not Know	Total Potential Opportunity
Tax Planning	58%	10%	68%
Retirement Planning	57%	7%	64%
Estate Planning	52%	11%	63%
Family Wealth Management	38%	19%	57%
Trust Services	39%	18%	57%
Elder Care Planning	36%	15%	51%
Charitable Giving	19%	15%	33%
Education Planning	21%	10%	31%
Succession Planning for Business Owners	11%	19%	30%

Source: *Client Audit*, Advisor Impact.

In the research, a more comprehensive or holistic approach to client management is linked to client profitability. Engaged clients indicated that they had a broader range of services in place with their primary investment professional. They also indicated that their investment professional worked with other family members, played a coordinating role across their professional advisors, and that they had a written financial plan.

Q: Does your primary investment professional work with other immediate family members?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

On the issue of family wealth management, about half of clients indicated that they had never held a family meeting to discuss plans for their estate, and another 10% did not know when that had last occurred. This suggests a strategic opportunity for those investment professionals who offer some form of family wealth management, and not surprisingly, the demand for estate planning, trust services, and charitable giving are highest among high-net-worth clients. You might put all of this under the umbrella of financial planning, which is clearly of great importance to the most engaged clients.

Need and motivation must clearly be in place in order for a client to retain his or her investment professional for additional services; however, there is also a role to play in educating clients on services, as the following table suggests.

Q: How do you typically learn about new services, such as those listed in the previous question, that you should consider? Please select all that apply.

	Disgruntled	Complacent	Content	Engaged
My investment professional proactively makes recommendations during our review meetings.	32%	39%	59%	67%
My investment professional provides information or education (e.g., a newsletter or workshop) to keep me abreast of what is available.	30%	35%	41%	51%
I read about new products or opportunities, then I ask my investment professional for more information.	47%	47%	41%	50%
Other	7%	5%	4%	4%
None of the above	22%	15%	11%	4%

Source: *Economics of Loyalty*, Advisor Impact, 2008.

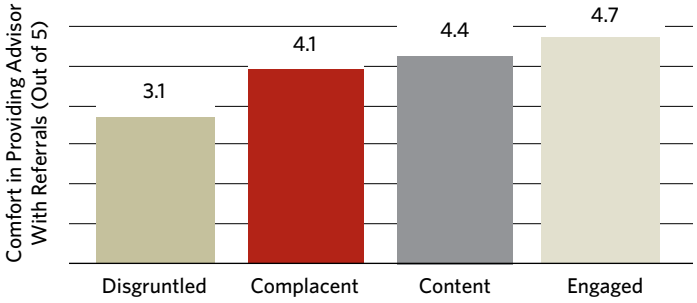
Client Referrals

Referrals are the most obvious form of return on client commitment, and the data highlights an enduring mystery: Why do some satisfied clients provide referrals while others do not?

Perhaps the most important point to recognize is that there is a difference between being comfortable providing referrals, and actually providing referrals. It is up to you to leverage client comfort. This is what is likely to produce results and you will find more information on this in the tactical highlights.

As the chart below shows, clients who are more committed to the relationship are more comfortable providing referrals.

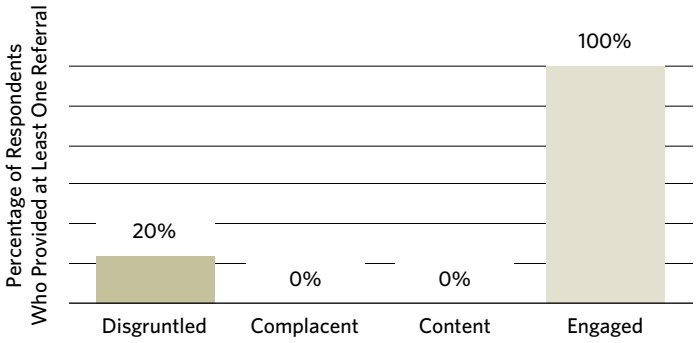
Q: I am comfortable referring my investment professional to a friend, family member, or colleague. Please use a 5-point scale, in which 1 is "strongly disagree" and 5 is "strongly agree."



Source: *Economics of Loyalty*, Advisor Impact, 2008.

However, there is a disconnect between "comfort" and "action." The next chart shows that virtually all referrals come from engaged clients.

Q: Have you provided a referral to your investment professional in the last 12 months?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

There is an obvious anomaly with disgruntled clients, although one that may be explained by the frequency with which those clients were asked for referrals despite the fact that the relationship was on a shaky foundation. This aside, client engagement has a striking impact on referrals.

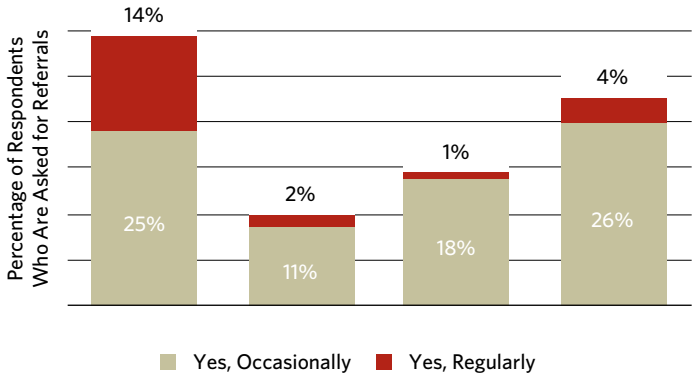
Growing Client Relationships: Tactics

By examining all of the client data, it seems clear that the best opportunity to grow relationships takes place when investment professional and client are face-to-face, whether building a deeper relationship or encouraging a client to provide more referrals. The tools and tactics described on the following pages focus on the client conversation, the moment in which you leverage all of the work that has gone into structuring and executing on the outstanding client experience.

Leveraging the Client Review to Increase Referrals

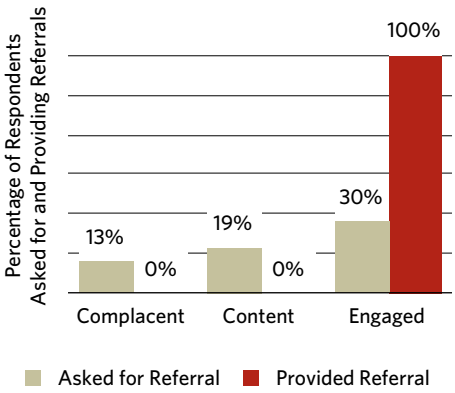
In addition to seeking to understand the link between client commitment and client profitability, *Economics of Loyalty* focused on the process of encouraging more referrals. While there is a correlation between asking for referrals and getting referrals, the relationship is more complicated. As a result, "just ask more" may be very bad advice. You need to ask the right clients, those who are comfortable providing referrals and those who are at least content, if not engaged. The data suggests that the clients who were asked the most were those who were the least satisfied.

Q: Has your investment professional asked you directly to provide referrals?



Source: *Economics of Loyalty*, Advisor Impact, 2008.

If we take those disgruntled clients out of the equation, it is clear that the relationship between asking for referrals and receiving referrals is not precise, as the chart below demonstrates.



Source: *Economics of Loyalty*, Advisor Impact, 2008.

These numbers suggest that engaged clients are simply more apt to provide referrals, although the circumstances of those referrals provide some insight as to how you might encourage even more referrals. Engaged clients were asked about the circumstances of providing referrals, and the numbers are telling. It was rare for a client to provide a referral simply when asked for a name.

Q: What were the circumstances of providing the last referral?

	Percentage of Engaged Clients
My investment professional told me he or she was interested in referrals and I provided a name at that time.	6%
A friend or colleague asked me if I knew a good investment professional and I made the introduction.	45%
A friend or colleague told me about a financial challenge they were having and I suggested my investment professional might be able to help.	54%

Source: *Economics of Loyalty*, Advisor Impact, 2008.

The results show, very dramatically, that simply asking for referrals does not impact the likelihood of receiving referrals. Looked at a different way, the data suggests that the reason clients offer a referral is as a favor to their friend or colleague, not as a favor to their investment professional. If that is the case, it substantially changes our approach. This is not an issue of just asking for names because you have provided outstanding service. Rather, it is about helping the best and most engaged clients to understand the kinds of problems an investment professional can solve for their friends, making you a resource that clients want to share. The focus has to be on problem solving for their friends, not business building.

It seems logical that the person most likely to give you a referral in the future is the one who has given you a referral in the past. A key referral strategy is to focus on those engaged clients and leverage their commitment further. Similarly, it is also instructive to understand any underlying obstacles your clients see to providing referrals.

When you understand the barriers your clients have to providing referrals, it is enlightening. Often investment professionals believe that a client has not provided a referral because they are simply uncomfortable discussing financial matters with a friend or colleague. However, among many clients—particularly engaged ones—this is only one barrier, as the following chart shows.

Q: Why do you feel you would not be very likely to recommend an investment professional?

	Percentage of Engaged Clients Who Responded "Yes"
I am not comfortable discussing financial issues with my friends or colleagues.	56%
My investment professional has a minimum asset level and I do not know if others are above or below that minimum.	44%
I cannot be sure that my friends or colleagues will receive the same high level of service that I have received.	11%
I am not satisfied with the level of service that I receive.	0%

Source: *Economics of Loyalty*, Advisor Impact, 2008.

Growing Client Relationships: Tools

The importance of the personal relationship suggests that there is no shortcut to engaging a client. You can support that process with the right systems and infrastructure, but at the end of the day, it is what happens when you are face-to-face with your client.

Take Action: Taking Client Reviews to the Next Level

It is during the client review process, when you are actively engaging your clients, that you can not only make the best use of the information you gathered during the measurement phase of the Client Engagement Framework, but also uncover additional opportunities. There are three key metrics that you will want to address as part of an annual client review meeting.

1. **The Client Metric: Satisfaction.** Talk to clients about the satisfaction rating they provided. By digging deeper on overall satisfaction, you set the stage for a more in-depth discussion. If a client indicates some level of complacency or dissatisfaction, this might be as far as you go. In such a case, you might have to focus instead on understanding the source of that dissatisfaction and mapping out a plan to rectify the problem. If a client is satisfied, however, take the time to understand why. The more you know about how clients perceive the value of the many things you do on their behalf, the more you can focus on those high-value activities. More importantly, by focusing on what a client really values and forcing him or her to think about it further, you will reinforce positive feelings and have more meaningful conversations than you have had in the past.
2. **The Client Metric: Expectations.** Talk to clients about their expectations. Before you start thinking about growing the relationship, it is important to address and reinforce what clients can expect. This process is more than a reality check to ensure you are delivering on expectations. It allows you to actively manage expectations—for example, when a client demands too much contact—and to underscore what you have and will deliver to your clients.
3. **The Client Metric: Opportunities.** At this point you can focus on those services that clients have expressed an interest in learning more about. You will be having this conversation in the context of their stated interests and adding value to the relationship while potentially uncovering additional revenue opportunities. This conversation leads easily and naturally to share of wallet, should that be identified as an opportunity for the client.

By starting with what matters most to the client and then leading to additional opportunities, in the context of client needs and goals, you lay the groundwork for a comfortable discussion of referrals. You will be armed with the comfort rating provided by that client and that metric will open the door for your referral conversation.

Take Action: Helping Clients Spot Referral Opportunities

The research clearly demonstrates that an effective referral strategy starts with a target group of clients who have already expressed a high level of satisfaction and a comfort in providing referrals. From there, it is about helping clients to spot a good referral opportunity, rather than just asking for referrals. This recognizes that clients make referrals to help their friends and family, rather than simply to do you a favor. That, in turn, changes the approach.

Here are three tips you may find helpful:

1. Define your value.
2. Articulate your value to clients in the context of problems that you can solve for specific groups of people, for example, newly divorced women, widows, or business owners. Rather than ask business owners for the names of others who might be interested in meeting with you, tell them about what you can do for people they know. A conversation might go something like this:

   "James, we've had a lot of success in working with business owners who are selling their businesses. It's a time that is extremely stressful, as you know, and fraught with risk without the right advice. We help business owners navigate the process, working closely with their legal and tax counsel. I know you talk to other business owners, so if you think we could help any of them through this process, we'd be more than happy to speak to them. Let me tell you a little more about the kind of business owners we can help . . . "
3. Help those clients that may be engaged but somewhat reticent to provide referrals to overcome their primary barrier (such as: "I don't know if my investment professional has a minimum account size."). You can address this part of the conversation by helping clients understand the specific kinds of clients with whom you work because many clients may not know if a given friend or colleague meets the requisite asset minimum. Put them at ease by describing a typical client who would meet the requirement—such as a business owner who is five years from selling and has more than 20 employees. It is recommended that you take time to help a client understand how you work if the needs of their referred friend or colleague cannot be met with your current business model. This takes the conversation away from the asset minimum to focus more on needs and reassures the client that their friend or colleague will be supported in finding the best solution, even if that is with another investment professional.

Putting It All Together

The Client Engagement Framework is designed to help you build on the success you have already had and unlock further value among your existing clients. Every investment professional has access to hundreds of ideas and tactics, all purporting to help with the business, but what is often missing is context. By having a clear framework—here defined as the process to measure, manage, and grow your client relationships—you have a place to start and a logical course to follow. You can filter the relevance of the many ideas presented here into the context of what is really important in your business.

Appendix One: Research Methodology

The Client Audit Database: Client Audit is Advisor Impact's client feedback program. A byproduct of the program is the immense database of input from clients across the country. At time of writing, the database included input from approximately 60,000 clients across North America.

The Economics of Loyalty: *Economics of Loyalty* is a broad-based study conducted in January 2008 among 1,000 U.S. investors. The study was conducted by Advisor Impact via an online survey and the sample was constructed to include investors who met the following criteria:

> 18 years of age or over

> Works with an investment professional

> Contributes to, or makes, the financial decisions in the household

> Geographically representative

> Meets specific asset criteria (described below)

Total Investable Assets	Percentage of Respondents
$50,000–$99,000	10%
$100,000–$499,000	30%
$500,000–$999,000	25%
$1,000,000–$4,999,000	25%
$5,000,000+	10%

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