

Client Acquisition and Retention

Optimizing the Advisor's Toolbox

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I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.

— Abraham Maslow

The American psychologist Abraham Maslow recognized that humans have a cognitive bias that predisposes us to an overreliance on a familiar tool. We see this predisposition across many professions, from surgeons to computer programmers and, yes, even with psychiatrists.

As it relates to financial advisors and their efforts around client acquisition and retention, the tools available to them are familiar ones, e.g., e-mails, seminars, social media, etc. Yet, like the hammer, these tools may be used more out of habit or convenience, without regard to whether the opportunity in front of them is a nail or a screw.

In this white paper, Client Acquisition and Retention: Optimizing the Advisor's Toolbox, we explore how advisors can better integrate tools, create relevant messaging, and target audiences in order to drive optimal client acquisition and retention results.

Achieving Client Acquisition Success

New business development is essential for an advisory practice's long-term sustainability. The well-known adage of "If you're not growing, you're dying" is especially fitting for a financial advisory practice. Client losses—whether due to death or account transfers, fee compression, and retirement-related asset decumulation—are substantial drags on growth that can only be overcome by new client acquisition.

Client acquisition can take many forms and approaches, but all successful strategies share five core elements:

1

CREATE THE TIME



Many advisors identify time constraints as a major reason for not dedicating more time to client acquisition. On the surface, it's understandable—there is an almost infinite demand on an advisor's time.

Lack of time is not an excuse, however, for neglecting the future. Has the GM of a football team ever declared that he has no time to spend thinking about the draft?

To create the time, advisors need to examine how they spend their day, identifying tasks and activities that can be transferred or more efficiently done. Some ideas include delegating duties to other staff, outsourcing certain functions and abandoning low-value activities. One simple question may serve as a common sense standard by which an advisor can measure the relative value of any activity—"Is this as important as gaining new clients?"

2

DEFINE THE AUDIENCE

Define the audience. It may seem an obvious point, but the demographics of the audience should dictate the tool advisors use. Millennials don't pay attention to e-mails, and UHNW individuals are likely to be unimpressed with an advisor's social media savvy. The client acquisition tool an advisor employs must fit the targeted audience's communication preference.



3

DETERMINE IF YOU'RE FARMING OR HUNTING.

Advisors need to determine if the investors they are seeking can be farmed, or must be hunted.

For instance, the mass affluent investor is a prospect pool that can be effectively gained through regular e-mailed communications, social media outreach and seminars. They can be farmed. However, a targeted niche like doctors or high-net-worth investors is much less likely to be gained in the same manner—they need to be hunted. This requires networking and face-to-face contact wherever this herd gathers: association meetings, charitable fundraisers, alumni network, etc.



4

CRAFT A MESSAGE THAT RESONATES

It's critical that the message of any client acquisition initiative is meaningful to the audience to whom that message is directed.

These messages should be investor-focused and revolve around investor pain points or goals. They should also be differentiated from the bland and overused messaging that characterizes too much of investment advertising.

Millennials are more likely to respond to a message about social impact investing or student debt relief than investment diversification, while retirees are more likely to connect with incorporating guaranteed income into an overall retirement strategy than a message about alternative investments.



5

END WITH A CALL TO ACTION

Every message to prospects must end with a call to action: "Call today." "Schedule your free portfolio review now." "Contact us for our five retirement income strategies."

The absence of a call to action leaves the prospect uncertain about what to do next. They need to be nudged and guided. A clear, declarative call to action can be a key impetus to prospects taking the next step.



Two Big Ideas

For advisors looking to super charge their new client acquisition efforts, they may want to consider buying a client book outright or tapping into one of today's fastest growing investor segments.



Buy a Book

Advisors can take a giant leap in client acquisition by buying another advisor's book of business. Aside from price, the major hurdle may be finding a seller who has built a book of clients that aligns with an advisor's own philosophy and values.

There are a number of places where advisors can check out practices that are being offered for sale, such as RIA Match, Succession Link and FP Transitions. Advisors may also find potential buying opportunities by looking within the advisor's professional network or among advisors that share a common broker/dealer.

The cost of buying a book will vary depending upon, among other factors, practice revenues, type of revenue and the demographic profile of the client base.

Think Young

There are many investor segments that represent wonderful opportunities to gain new clients, from women to retirees. However, for a largely overlooked growth catalyst, advisors may want to think about the Gen X and Y investor segments.

In a recent study by McKinsey's PriceMetrix division, clients born after 1965 represented 21 percent of wealth management clients as of 2018, which is up from 16 percent just three years earlier. In fact, the compound annual growth rate of assets for this "Next Gen" client was 6.1 percent, nearly twice the asset growth rate of older clients (3.5 percent).¹

And, the best way to tap this growth may be to hire a "Next Gen" advisor. PriceMetrix found that advisor teams with a "Next Gen" member experienced an 8 percent higher new client acquisition rate and 22 percent higher revenues compared to advisor teams without a "Next Gen" advisor.²



Message versus Medium



Many advisors spend considerable time and thought on the medium (e.g., e-mail, seminar, blog, etc.) when it is the message that matters most. The investing public is bombarded with advertising messages for all manner of products and services. Said kindly, most financial advertising is unimaginative and hard to distinguish between one financial provider and another.

In crafting a unique and compelling message, advisors ought to think about their special expertise and the needs of their target market. For example:

- Teaching Children Good Financial Habits that Last a Lifetime
- How to Maximize the Social Impact of Your Philanthropy
- How to Redesign Your Portfolio Now that You're Receiving Social Security
- Five Strategies to Conquer Student Debt
- Meeting the Challenges of Caring for Elderly Parents
- Retiring Abroad
- The Hybrid Solution to Long-Term Care Costs

Remember, for a message to be relevant, it needs to address client needs and goals

Client Retention—A Client Saved is Two Clients Earned

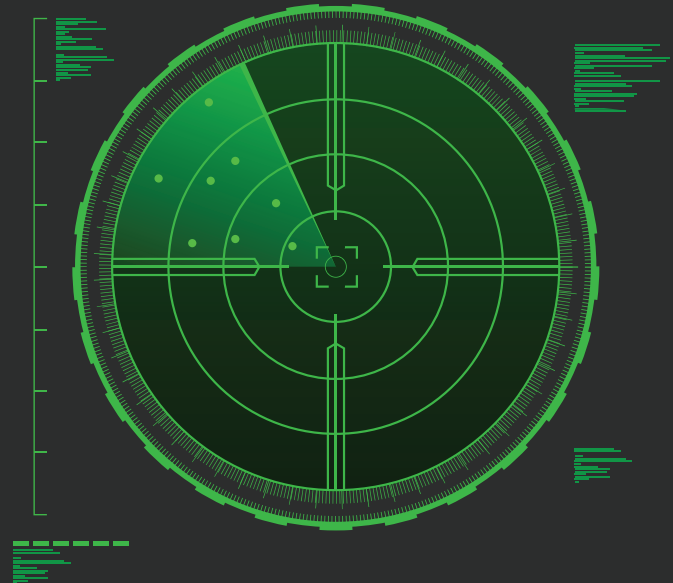
Financial advisors do a reasonably good job of maintaining existing client relationships, experiencing retention rates consistently in the low 90 percent range.³

The inverse of that retention rate, however, can be a bit unsettling—7-10 percent of clients are lost every year. To plug this outflow, advisors must either undertake the more expensive and time consuming route of increasing new client development efforts or get better at keeping the clients they have.

In one study of client retention, the risk of losing a client is greatest during the 12-to 48-month period of the client relationship lifecycle.⁴ The study's authors hypothesize that the first year is the "honeymoon period," after which clients decide whether the advisor is meeting their needs or not. Once the advisor/client relationship extends into five years or longer, clients remain quite sticky.

Thus, it makes sense that advisors commit considerable attention and energy to the segment of their client base that is moving through this particularly precarious period.

Irrespective of a client's tenure, however, advisors should not underestimate the value of communication in sustaining great, lifelong client relationships.



Develop an Early Client-Loss Warning System

One way to potentially prevent client losses is by identifying signals that may indicate a client is considering transferring his or her account to another advisor. Here are some possible warning signs that a client is contemplating leaving:

>> Client begins questioning fees

>> Client has become more fixated on investment performance

>> It is harder to connect with the client

>> Client is checking his or her account online more frequently of late

>> Client is not listening to advice

The truth is that there is very little research into indicators of potential client defection. Accordingly, advisors should reflect on their own experience with client terminations and determine if there were signs that, in retrospect, indicated a client was on the cusp of transferring his or her account.

By identifying early warning signs of dissatisfied clients, advisors put themselves in a position to take preemptive action and potentially head off future client losses.

Improving Client Retention Rates

The predominant reason clients leave an advisor is poor communication, e.g., not returning calls or e-mails in a timely manner, not proactively reaching out (especially during times of market turmoil), insufficient communication of offerings or financial status updates, etc.

Advisors can improve their client retention rate in many ways, big and small, but here are four ideas advisors can't afford to ignore.

Provide great service.

Clients never appreciate sub-par service or the feeling of being forgotten. Advisors must respond quickly to client communications and resolve problems immediately. Equally important, advisors must have a structured client outreach program that ensures regular and germane communications. Client contact software is an ideal tool to keep advisors to a discipline schedule of client contact.



Work to achieve multiple product ownership.

Clients with multiple product ownership are stickier than clients with a single product relationship. One analysis of client retention rates showed that client retention was increased by a factor of 11 percent with clients that had two or more retirement accounts with an advisor versus those who had no retirement account. The lesson? Reach out to single product ownership clients and broaden what they own by getting them to open an IRA, 529, etc.



Create appropriate client expectations.

There may be no greater client disappointment than failed expectations. Advisors need to set the right expectations for clients, from investment performance to advisor-client communications. Advisors also need to learn what the client's expectations are of them in order to better manage or meet them.



Have honest self-reflection.

Reflecting on why investors left, or are considering leaving, requires an unvarnished self-assessment of the advisor's contribution to client dissatisfaction. Only then can an advisor understand what he or she needs to do (or not do) in order to avoid repeating the same mistakes in the future with other clients.



Shared Principles of Acquisition and Retention

As advisors begin formulating their own client acquisition and retention strategy, they should be guided by five common fundamental principles:

1

Define the audience.

Defining the audience you want to reach will prescribe the best communications media for connecting to them and the messages that will most effectively resonate with that audience.



2

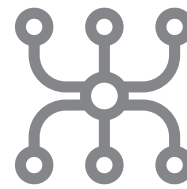
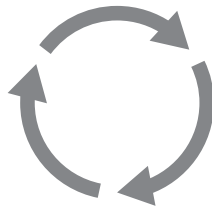
Ensure effort is scalable.

Whatever plans an advisor develops, it must be scalable in order to accommodate a growing client account base or prospect list.

3

Make sure it's sustainable.

Putting off other important activities to execute on a client acquisition drive may be an acceptable one-off event, but it is not something that can realistically work over a sustained period of time.



4

Adopt a diversified approach.

Advisors won't always know what tools or messages will prove to be most effective. There are no hard and fast laws governing client acquisition and retention, so it's best to spread time and energies across approaches.

5

Don't be afraid to experiment.

Finding the best way to communicate with someone or a group of individuals, or landing on a message that strikes the strongest chord, can only be discovered through trial and error. Advisors may want to segment like clients or prospects and experiment with different messages and communication platforms to determine which gets the highest response rates, and adapt these lessons over time.

At American Portfolios, we have developed a comprehensive suite of client acquisition and retention tools, content and education that has benefited from years of advisor feedback and real-world application. It represents an invaluable resource for any advisor serious about raising his or her client acquisition and retention success. Visit our blog to find hundreds of informative posts for financial advisors at blog.americanportfolios.com.

Sources:

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*Based on a poll of registered representatives conducted by Investment Advisor magazine. Broker/dealers rated highest by their representatives are awarded "Broker/Dealer (B/D) of the Year."

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