

MARKETING

— *for* —

Financial Advisors

*Build Your Business, Bring in Clients,
and Establish Your Brand*

Develop a detailed marketing strategy

Define your market niche

Create a personal brand for your practice

ERIC T. BRADLOW
KEITH E. NIEDERMEIER PATTI WILLIAMS
THE WHARTON SCHOOL

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*Eric Bradlow dedicates this book to Laura,
Ethan, Zachary, and Benjamin*

*Keith Niedermeier dedicates this book to Michelle,
Andy, and Brian*

*Patti Williams dedicates this book to Dylan,
Evie, and Calder*

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MARKETING
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TREATING YOUR FINANCIAL PRACTICE LIKE A SMALL BUSINESS

INTRODUCTION: A SERVICE ORIENTATION

Our experience as academics and our years of teaching people about marketing in the financial services industry have taught us that one fact *always* holds:

Start treating your practice like a small business or you will be out of business.

This book is intended to help you move from a sales orientation to an entrepreneurial orientation. Marketing is critical to every entrepreneur. To state it in a more provocative way:

If you don't have time to make marketing critical to your practice, just wait—you soon will.

Those financial advisors (FAs) who want to succeed need to recognize that the financial services industry is just that: a service industry. We have personally conducted surveys of over 800 financial advisors from the top financial firms from around

the world,¹ and recent surveys from the “World Wealth Report 2008”² and other major research firms corroborate the importance of service. Over and over again, customer service and understanding the needs of one’s clients shows up as the number one driver of success; delivering high or above-average financial returns to your clients is listed as fourth.

When we state that a marketing orientation is a must, we are not just relying on third-party sources. Through a carefully designed survey that we have conducted over the last five years, we are bringing your voice, the voice of the financial advisor, to the development of a set of best practices. That is, by collecting and analyzing your survey responses with well-established principles of marketing, we are able to provide a detailed set of strategic suggestions and tactics that can improve an FA’s business. There is no better source of field research to determine what has worked and what has not than FAs themselves. This is the unique value proposition of this book that separates it from others that are much less data-oriented.

This book, however, is not just for the “winners.” It would be silly to imagine that only successful financial advisors have that “secret formula.” Thus, we have surveyed financial advisors at all stages of their career. This includes those who are just starting out and trying to build their practices, a time when customer acquisition may be of central importance. We have surveyed individuals and taught executive education courses to clients in that elite group with more than \$100 million in total assets under management who focus all of their efforts on ultra-high-net-worth clients (more than \$5 million). We have surveyed individuals who have built their practices and now primarily want to maintain their customer base, so that customer retention is of central importance.

Our data and this book also apply to branch managers and those who are looking to brand the various financial services teams that work in their branch offices. It also applies to those assistants and support people at financial services firms who want to understand the role that they can play in making their designated financial consultant or office a success. These valuable men and women act as the gatekeepers for all interactions between clients and the firm and are the first contact a client has with an FA's practice.

The overwhelming importance of a marketing orientation rather than a high-return orientation may seem like heresy and, further, impossible to believe. In fact, a customer-centric view of your practice will provide you, as we will describe throughout this book, with the ability to achieve all the ultimate goals you desire. That is, a high book value under management does not just happen. Acquisition of high-net-worth clients does not just happen. In fact, data suggest that it takes 1.5 years, on average, to acquire a single high-net-worth client. Reaching elite status in your firm does not just happen. It is the small and meaningful *intermediate* goals along the way that make it happen. It is these intermediate goals that we lay out that will provide you with a summary marketing plan for success.

Using marketing lingo, we would identify some of these intermediate goals (and we have sections on each of these throughout the book) as:

- ***Developing a value proposition.*** What unique product or service does your financial advisory practice provide in comparison to others? What is your point of differentiation?

- ***Developing that successful initial point of contact.***
Do you have that 15-second “elevator speech” that tells prospective clients what unique services you provide? In other words, many financial advisors ignore or at least invest too little time in the communication aspects of their job.
- ***Developing your “three words.”*** Most individuals will remember at most three basic messages when you introduce yourself to them. What would you like those to be, for you?
- ***Developing your “word-of-mouth army.”*** It is no secret that the financial advice business is driven by referrals. Now that you have your value proposition and your three words, whom would you like to have talking about you, especially in your local community?
- ***Developing a deep understanding of your clients.***
A fundamental understanding of your clients’ decision-making processes and psychology will aid you in acquiring new clients and satisfying the ones you already have. We will give you insights that will help you get a bigger wallet share, create loyalty, and encourage referrals.
- ***Developing a niche segment.*** What target set of clients are you going after? If your answer is “all of them,” then (only somewhat facetiously) you desperately need this book. We will make the case that you have a competitive advantage in acquisition when you are focused on a subset of clients. There are also those clients whose acquisition cost clearly outstrips their value. These clients must not be acquired, and if you have them, you need to fire them. Or, even better, as we will describe, let them fire themselves.

- ***Developing your positioning statement.*** Simply put, out of all the choices clients have for selecting a financial advisor, why you? What is so special about you? We have found that many financial advisors, when cold-called in class, asked to think about this in a survey, or asked to state it in a mock initial client meeting, have a very difficult time stating what they bring that is unique. If you cannot clearly and quickly communicate why someone should invest with you, how can you expect your clients to do it when they refer you to others?
- ***Bringing it all together in a marketing plan.*** With a value statement, target segment, and positioning statement in mind, how tactically will you achieve your objectives? A marketing plan helps clarify things for you, your clients, your partners, and your staff.

While this might initially seem overwhelming, our intention in this book is to take you through these steps one by one, with the goal that by the end you will be able to construct a marketing plan that is tailored to you. In addition, we will provide you with an outline for a marketing plan that can act as your guide. Now those readers who are familiar with full-service and elaborate marketing plans might, and rightly should, be thinking, doesn't developing a marketing plan take months and cost hundreds of thousands of dollars or more to employ a firm to do it, and isn't the plan usually hundreds of pages long? The answer is typically yes, yes, and yes. While we would never (and appropriately so) recommend that a practice not do this, the goal of this book is quite different. Here, the goal we are talking about is a "one-page" marketing plan. This is not to say that everything can

be contained in this one page; however, our experience has shown that one can distill the key strategic and tactical elements into a very small amount of space. Furthermore, the development of a plan that is not as daunting increases with its simplicity, as does the likelihood of its not just sitting on your desk as a useless paperweight. This book is a guide to turning your financial services practice into a marketing-oriented business, one step at a time.

We will start this path with the most central organizing concept in marketing, your five Cs and four Ps. We will talk about each of these briefly in general terms (as a generic marketing course would) and then discuss them specifically as they play a role in the financial services industry.

THE FIVE Cs AND THEIR APPLICATION TO YOUR FINANCIAL SERVICES PRACTICE

Before any financial advisor tries to enact positive change, he must take stock of his current situation. It is sometimes useful to think of this through the analogy of a patient walking into an emergency room with a malady (in your case, assets under management that do not reach your objectives) and the doctor triaging (taking stock of) that patient to determine the cause. Examples in the financial services industry can be wide ranging, including poor performance in making initial contacts, converting contacts to leads, converting leads to clients, retention of clients, getting a large dollar wallet share from your clients, and so on. It is exactly this causal analysis for which the five Cs and four Ps framework was developed.

To the untrained, taking stock may lead to either pages and pages of text that are useless at the end because of their lack of structure or loads of spreadsheets that try to capture every micro facet of a business but miss the big picture. Fortunately, the tools that marketing scholars have developed for years³ to organize information into the five Cs and four Ps of any business situation are directly applicable to your financial services practice. Thus, to avoid losing the big picture here, we will lay out these principles one at a time, and with each principle provide sample answers to these questions based on the survey data that we have collected. Our hope is that after reading this chapter, you will find a place in your one-page marketing plan for writing down your five Cs and four Ps.

The basic five Cs of any business can be summarized by an assessment of your:

1. Customers (clients)
2. Company
3. Competition
4. Context
5. Collaborators

Each of these plays an integral role in your practice, and ignoring any one of the five can lead to suboptimal performance.

Clients

The first C is where your financial services practice begins, continues, and ends: your clients. It would be trite to say,

“Pay attention to your clients!” and that is not what this C is about. Rather, how many financial advisors have taken a systematic and quantitative look at their clients? Do you have the correct mix of clients? Do you have too many clients? That is possible. In fact, our survey data suggest that the average financial advisor should have no more than 75 to 100 major clients at any one time [we will expand on this later when we talk about client relationship management (CRM) in Chapter 7]. Does each of your clients provide positive net present value (NPV)—that is, financial returns—to your practice, and how do you know this? Which of your clients have strategic value and may be able to act as the aforementioned word-of-mouth ambassadors? While this may be a cold way to look at things, each and every client must be scored on a number of dimensions. This book will lay out those dimensions and provide you the means with which to compute your client “scorecard.”

Furthermore, do you understand the reasons that your clients chose you in the first place, the reasons they stay with you (or leave), and the reasons they refer you? Chapter 5 delves deeply into the client decision-making process to help you gain insights into what drives prospects to choose you and clients to stay with you. However, you know that clients do not always act rationally. Chapter 6 dives deeper into investor psychology to illuminate the underlying reasons for the strange and sometimes frustrating things that clients do or refuse to do. You will increase your value to your clients if you understand them better and help them make better and more optimal decisions. Lastly, Chapter 9 will give you specific approaches (tactics) to collecting client information that will help you formulate your marketing strategy.

Company

If you are taking an entrepreneurial approach and trying to build your business for the long term, then we must define the company as *you*. There is a growing trend for advisors to become independent. If this is your situation, then you absolutely must treat your practice as a service-based business that you are managing for the long haul. You may also be part of a team or a partnership or have your own small firm, in which case you would define this as the company. Even if you are an employee or closely affiliated with a large financial services company, you should be focused on building *your* business. Being affiliated with a large corporation has its advantages, but it does not allow you to ignore the long-term impact of marketing. The ultimate responsibility for your portfolio of clients and your future rests with you!

One of the primary tools used to form your marketing strategy is a SWOT analysis. This is an exercise in which you identify the strengths, weaknesses, opportunities, and threats to your company. This exercise is widely used by companies both large and small (this is described more fully in Chapter 2). Strengths and weaknesses are of critical importance because, as we will explain throughout the book, it is critical that you create a match between your strengths and a specific niche of clients. While strengths and weaknesses are internal factors that clearly fall under the company C, opportunities and threats are concerned with external factors, which can include elements of the competition, customers, and context Cs. No matter how you categorize it, the goal is to create a marketing strategy that leverages your strengths, mitigates your weaknesses, capitalizes on your opportunities, and diminishes your threats.

This starts with a critical look at yourself. Research on your current clients, as we describe in Chapter 9, will help you implement your SWOT analysis.

In the financial services industry, a firm's reputation is one of its greatest strengths or potentially greatest weaknesses. Financial products are increasingly viewed as commodities. Prospects and clients are not so much making decisions based on the products that you offer, but rather on your reputation for service and advice. This can be manifested in different ways, but what we are really talking about is your *brand*. The world's best companies, like Coca-Cola or Procter & Gamble, treat their brands as assets. They invest in them, build them, and protect them. You should, too. Building and managing your reputation, or brand, is imperative to your success as an advisor. Chapter 4 will spell out the critical elements of good branding and take you through the steps needed for building yours. We will help you identify your core competency and value proposition and, just as importantly, how to communicate them effectively.

Competition

When marketers try to understand the role that competition plays in their business, it usually comes down to one central question: is it a zero-sum game or not? Consider that there are a number of basic ways for you to increase your revenues: (1) raise prices (e.g., fees), (2) increase your client base (i.e., customer acquisition), and (3) increase your dollar wallet share from your current clients. But the question is, how are you going to do that? If one assumes (and

in the financial services industry this is a fair assumption) that the number of “attractive” clients and the “total wealth to be managed” is a fairly fixed-size pie, then if you gain, someone else loses. This changes the nature of competition dramatically. Contrast this with a situation in which, because of your own marketing efforts, a lot of nonusers of a given product now buy (this is called category expansion). Then, in fact, your competition may be quite happy that you are advertising your services, since even though their market share might decline (temporarily), it will easily be offset by the growth in the market.

While it is possible that through your efforts you will be able to shift some investors who do not use advisors to doing so (move them from self-managed to managed), it is less likely, and their acquisition costs are likely to be much higher. Thus, competition will clearly play a significant role in the strategy of your practice. A bigger question, however, is, “Who is your real competition?” It does not include every financial advisor in your area. This is too large a set and fails to recognize brand tiers. For instance, someone from a small firm is unlikely to try to attract or have the ability to attract the same clients as someone who works at a large, prominent firm. This is good for both parties! Furthermore, a financial advisory typically has or should have a focus, e.g., retirement planning. This is the basis of segmentation and is a primary tenet of the marketing approach and this book.

So, how do you collect information on who your competitors are? We recommend the following tactics, all of which can be implemented fairly easily and should be part of your larger interest in a data-oriented/driven practice.

- ***Ask your prospects.*** It is not unreasonable to ask your prospective clients what other advisory firms they are considering or which they have used in the past. This is a great source of information, and questions like these, which fall under the rubric of “unaided awareness and consideration,” are strong predictors of eventual choice. Although it is possible to get into someone’s unaided awareness set through various forms of advertising, not being in someone’s set at the time the choice is made guarantees that you will not be selected. Furthermore, if you are in someone’s set only at the time of choice, as opposed to prior to choice, this reduces the odds of your attaining that person’s business in the first place. Wouldn’t it be informative to know whether you did not get someone’s business because he knew about you, considered you, and didn’t select you or because he didn’t know about you and hence couldn’t select you? One (the former) is an image problem, and the other (the latter) is an awareness problem. Although we will discuss this later in the book, given a choice, take the latter problem.
- ***Ask the churning clients.*** Departing customers are an excellent source of information for any firm. Firms that want to continuously improve should hold exit interviews to understand where their ex-clients are going, the reasons for their departure, and whether they are likely to be a source of negative word of mouth. That is, part of customer relationship management is to “lose customers the good way.” We will discuss this in Chapter 7.

- ***Ask your board of advisors.*** You may be saying to yourself, “Who is that? I don’t have a board of advisors.” Well, you should. One of the dominant themes we have heard from the hundreds of financial advisors we have taught is the value of a set of trusted opinions. While this is discussed in Chapter 9, you need to know that there are sources within your local community that can easily help you ascertain your competitive set.

Context

Context refers to the general situation the firm faces at the current time. For instance, what is the economic climate? Are you currently gaining or losing clients? Have you recently had a negative word-of-mouth event, or just the opposite, a great opportunity to brand yourself? The reason why the context is so important to one’s strategy is that it provides a set of real-world constraints. To bring this C to life, consider the following vignettes.

Example 1: Out of Time, Out of Money, and Out of Business

William is a highly successful financial advisor. He determines that a good long-run strategy for him is to focus his efforts on high-net-worth clients, as he has been good at acquiring and retaining them. On the surface, this is a good plan for him. However, William is forgetting the context, which is that the economy is in decline, he is losing clients, and the confidence that his community has in him is waning. Thus, *if* he still has an active and vibrant practice in two years, then his strategy

might be successful. However, current projections suggest that because of the context, he will never be able to reap the benefits. William decides instead to focus on making sure that he retains his current clients and trying to get a larger dollar wallet share of their assets under management because this is a good short- to medium-term strategy.

Example 2: Wrong Time to Advertise

Liz, as a data-oriented financial advisor, has determined that she has an awareness problem. She is tremendous at closing the deal, but many potentially attractive clients just don't know who she is. Liz determines that she will launch a media campaign to raise awareness, generate leads, and hopefully improve her client base. All of this sounds good on the surface. Unfortunately, Liz's corporate firm, not her local branch, has recently suffered some public relations issues, and by advertising, she will just bring even greater visibility and salience to these issues in the consumers' minds. Recognizing this, Liz decides to spend the time she has allocated to marketing efforts to damage control and uses direct client contact, namely meetings, and her word-of-mouth army to bring a positive image to her practice prior to advertising.

Example 3: The Wrong Segment

Ron is a financial advisor with a strong marketing orientation who has decided to refocus his efforts on a target segment that he has never worked with before: physicians. As this is a target market that has significant stored wealth and has a lot in common, especially temperamentwise, with Ron, he is confident that he will have a good rapport with it. On the surface, this is a good plan for Ron. However, Ron

is overlooking the competition and has failed to recognize that a different financial advisor in his region also has an MD degree. Whenever the two of them go head-to-head for clients, the other financial advisor is more credible. After his first few attempts, Ron quickly realizes this and changes the focus of his segmentation strategy, as he determines that physicians are not a winnable segment.

Collaborators

“Win-win.” If all of us had a dollar for every time we have heard this, we would be wealthy. Despite being a catchy slogan, however, this does embody the collaborators C. Simply put, who else has to “win” if you are to win? This is something that is commonly overlooked in a financial services practice, as many financial advisors see themselves as the sole masters of their own destiny. This is false. It is false in the financial services industry, and it is false in any industry. For instance, think about how your success is tied to that of your colleagues who serve as part of your team. Think about how your success is tied to your support staff. Think about how your success is tied to people who will hopefully generate referrals for you.

As we described in the section on the company C, you are considered the company even if you work for a large firm. In this case, you need to think of yourself as the company and your parent firm as a collaborator. The more successful you are at building your business, the more benefits are reaped by your parent firm. Additionally, you can position yourself as a small firm that understands the individual needs of its clients (your company) while still having the resources of a large multinational firm at your disposal (your collaborator). Lastly, you

can and should develop mutually beneficial relationships with other service providers such as attorneys and accountants, who can generate an excellent referral base.

In any good marketing plan, you should do two basic things: develop a list of collaborators, and develop a plan to solve what is known as the “agency theoretic problem.” That is, how do you give your collaborators incentives to operate in ways that are advantageous to you and not solely to them? This is discussed as part of the best practice tactics in Chapter 9.

THE FOUR Ps AND THEIR APPLICATION TO YOUR FINANCIAL SERVICES PRACTICE

Many marketers think of the five Cs of marketing as one’s “homework,” the work that has to be done to develop your strategy. Then the next step is to assimilate the information collected and determines one’s segmentation, targeting, and positioning, or *STP* (discussed in detail in Chapter 2). Simply put, what clients will you go after (segment), by what targeted means (how), and with what basic message (positioning)? However, all of this has little to do with the “rubber meeting the road.” That is, you can evaluate your five Cs, determine your *STP*, be mentally happy with your accomplishments, and put the result on your desk. Doing this will not affect your practice, and nothing will change. Eventually, you need to pull a tactical lever that will affect your clients and your business. The four Ps of marketing—product, promotion, place, and price—are those levers.

However, before getting into the details, we must emphasize the most basic premise of the four Ps of marketing.

Your four Ps must be aligned!

That is, the right product at the wrong price will not sell. The right product at the right price but distributed (placement) through the wrong channel will not sell. The right product at the right price through the right channel but with zero awareness (poor promotion) will not sell. To “sell” your financial services practice, your four Ps must be aligned. In fact, it may be bold of us to say that it would be advantageous for your practice to have the “wrong” four Ps, but aligned, rather than a misaligned set of Ps where some are right and some are wrong. There are no right Ps, ever, if they are not aligned.

Product

If you are a consumer packaged goods company selling cereal, it is fairly obvious what your product is: cereal. If you are a financial advisor in the financial services industry, what is your product? When we teach this material, we commonly start out our lectures with exactly this question: “What business are you in?” While it is a seemingly easy and innocuous question, it always leads to lots of discussion and debate among financial advisors, with little resolution. However, here are the most common answers we have heard:

- I help my clients holistically manage their financial goals.
- I am in the psychology business.
- My product is me.

What is most interesting is that when one merges these three answers, it is hard to argue with this definition of your product. You help individuals and families manage their financial goals. You clearly must act partly as advisor and partly as psychologist (see Chapters 5 and 6). Finally, at the end of the day, your product is you. People invest in you! We always ask how much of your client book would come with you if you were to leave your current company. One measure of a good practice for a financial advisor is a large fraction answer to this question. We would also argue that while a large fraction answer scares many large firms, they should encourage this, as successful financial advisors should be their goal as well.

Promotion

Promotion is the means by which a company informs customers about its product or service. For traditional products, these marketing vehicles include television, radio, print, direct mail, and of course the Internet, to name the major ones. While each of these vehicles is available to people working in the financial services industry, some are more prevalent and likely to be effective than others. We discuss this in detail in Chapter 8. However, for now, let us pose the following question: what would make you most aware of and likely to consider and use someone for an important purchase, like your financial advisor? The answer, suggested earlier, is referrals. Later in this book, we talk about explicit tactics to build your referral network. This is not to say that other promotional vehicles are not important. They are, but referrals are the most influential source that must be utilized as a strategic asset. In Chapter 7, when we talk

about customer relationship management, we will further discuss the use of customer-level targeting that can most easily be implemented through a strong Internet targeting engine.

Placement

Placement refers to the distribution channel (e.g., a retail store) through which a customer acquires the given product or service. For the financial services industry, it is not clear that this mapping is too direct. However, let us emphasize the following: although placement (distribution) is the “most forgotten P” in many businesses, it is the most enduring one and can provide a great source of competitive advantage. Consider the following example, and then let us see the mapping to the financial services industry. Imagine a manufacturer of electronics products that strikes a deal with Best Buy to nationally and exclusively distribute its product in a given product category. Then, by definition, Best Buy’s share of the market must be 100 percent. Furthermore, distribution contracts tend to be of a longer-term nature and hence enduring. Now, for someone in the financial services industry, what would be an analogous “locked-up” distribution channel? While these are likely to be less formal or less frequent, an analogous situation might be a financial advisor who has a direct referral arrangement with a particular law firm, a particular university, a given hospital, or some similar institution. In essence, the greater the degree to which you can become the preferred or, even more importantly, the *default* provider of services for a given channel, the better this will be for your practice.

Price

As with product, for many companies it is obvious what one's price means—the actual financial amount paid for the product or service. For your practice, there are your fees, but even by this early part of the book, we assume you know that we do not mean just that when we refer to price. Yes, you have fees, and we do not mean to imply that they cannot be a strategic lever. But there are at least three problems with using fees as a strategic lever. Let us start with the two easiest problems first.

First and foremost, many clients are often not directly aware of the amount of fees that they pay, and by positioning one's practice as having low fees, one is bringing greater salience to a cost. While objectively your fees may be lower, your clients' overall satisfaction with the firm may not actually be increased. In fact, much literature on customer satisfaction shows that focusing on cost minimization as opposed to customer relationships and revenues decreases satisfaction.⁴

Second, fees as a form of price have strong reference points.⁵ That is, the price that you pay today is not evaluated in isolation, but rather in comparison to an internal sense of “fairness/price,” which is affected strongly by your past prices and also by competitors' prices. The implication of this for your practice is both simple and multifold. If you drop your price, eventually that price (those fees) will become the reference level, and your clients will expect it and gain no extra satisfaction from that price drop. Your margin will feel it, but not your customers. Also, the impact of price changes is asymmetric. While people enjoy price cuts, they

abhor price increases. So, imagine a financial advisor who changes his assets under management fee from 2 percent of assets to 1.5 percent of assets and then back to 2 percent of assets. Although this is somewhat counterintuitive, the net utility from these two price changes is likely to be negative because of what marketing/psychologists call prospect theory.⁶ In Chapter 6, we will discuss the implications of prospect theory for your financial services practice more broadly, but with regard to price it is much easier to drop than to raise prices effectively, and hence once you go down a price-cutting path, it is hard to head back upstream.

The most subtle impact of price cuts has been studied widely in the economics and marketing literature through the concept of a prisoner's dilemma game.⁷ Before we discuss this game and its role in the financial services industry, we emphasize that prisoner's dilemma problems are not just applicable to price, but can be related to things like discounts, service levels, giveaways, coupons, and so on. While we will be using the language and an example here of price, the theory derived by economists in game-theoretic applications is directly applicable to other parts of your practice.

To describe the prisoner's dilemma problem for the financial services industry, imagine a situation in which there are two clients, each with \$10 million to invest (call them Client 1 and Client 2), one of whom is currently a client of the first firm (call it Firm A) and the other is a client of the second firm (call it Firm B). For simplicity, also assume that each firm currently charges the same assets under management fee of 2 percent but is considering lowering its fee to 1.5 percent. Consider the 2×2 table of decisions and payouts in Figure 1.1.

**Figure 1.1 Both Firms Lose Money because of Price Cuts—
Outcome and Payoff Matrix for a Prisoner’s Dilemma Game**

		Firm A	
		2%	1.5%
Firm B	2%	(\$200,000, \$200,000)	(\$300,000, \$0)
	1.5%	(\$0, \$300,000)	(\$150,000, \$150,000)

As we can see, if both firms stay with their 2 percent fee, they each earn $2\% \times \$10 \text{ million} = \$200,000$ in revenue (the status quo). However, if we look at the payouts for Firm A, then Firm A is better off cutting its fees to 1.5 percent regardless of the actions of Firm B. If Firm B does not cut its fees, Firm A gets both clients, worth a total of \$20 million under management; that is, the \$300,000 from the [1.5%, 2%] cell is better than the \$200,000 it would receive from the [2%, 2%] cell. However, if Firm B cuts its fees, the \$150,000 that Firm A would receive from the [1.5%, 1.5%] cell is more than the \$0 it would receive from the [2%, 1.5%] cell. Thus, the dominant strategy for Firm A is to drop its fee rate to 1.5 percent. Clearly, since the matrix in Figure 1.1 is symmetric, this is seemingly the optimal strategy for Firm B as well, and hence both firms should rationally drop their fees to 1.5 percent. However, we note that under this scenario, both firms are *worse off*, as they both end up with $1.5\% \times \$10 \text{ million} = \$150,000$ where they earn \$200,000 now.

Thus, the prisoner’s dilemma points out the danger of using easily replicable tactics to gain a short-term advantage: the

other firm can match that advantage, and both firms are then worse off. Consumers are better off, as they now have to pay only 1.5 percent fees, but both firms lose money. Note that the prisoner's dilemma problem has been recognized as one factor that has led to the lack of profitability of the airline industry,⁸ as one firm offers frequent flyer miles that are then matched by a competitor firm (benefiting neither differentially). Then the first firm escalates things and offers frequent flyer miles and bonus miles for booking online, and this is quickly matched and possibly even surpassed by the competing firm. Again, as in Figure 1.1, there is no positive differential gained by either firm, and the consumer benefits at the expense of both firms.

A reasonable question is, how does one prevent prisoner's dilemmas from happening in your local market in the first place? One way, which is illegal, is explicit collusion. Both firms agree to maintain higher prices (or whatever the variable is), which works to the benefit of both firms. Without the possibility of explicit collusion, it comes down to the basic idea of signaling. For example, imagine that Firm A announces a "low price guarantee" where it states to the world that any price cut made by its competitors will be matched without question. Firm B now has no incentive to cut prices (assuming that the signal from Firm A is credible), and hence prices stay at [2%, 2%]. Thus, ironically, and not well known, lower price guarantees typically lead to higher prices, not lower prices.

A second common mechanism to try to get a market to stay at the "better" solution ([2%, 2%]) is what is known as a tit-for-tat response mechanism.⁹ That is, imagine that Firm A and Firm B know that they are competing with each other for Client 1 and Client 2 over a long time horizon. A tit-for-tat strategy would say that you must "punish"

defectors, and hence if you are Firm A, you must cut fees every time Firm B does, and vice versa. This signals clearly to the opposing firm that any defections from the superior outcome for both firms jointly will be dealt with immediately, again signaling the intent of the firm. While this simplified example in Figure 1.1 highlights just one small fraction of the prisoner's dilemma problem, it indicates the types of strategic decisions that you must make.

Returning to price more broadly, the reason why we mention that fees are just one part of price is the important role that transaction costs play as a determinant of the "price" of doing business. Imagine that Firm A drops its fees to 1.5 percent but simultaneously raises the amount of time it takes to get called back. Clients 1 and 2 are now trading off fees against service time, for which there is no obvious answer. Thus, when you and your practice are thinking about price, think about the price-to-value ratio that you are providing and try to deliver greater value at a given price level.

WHY A CLIENT-CENTRIC ORIENTATION ALWAYS PAYS

Let us get straight to the heart of the matter now. Will a client-centric orientation lower your costs in the short run? Unlikely. A client-centric orientation is likely to cost you what is possibly your greatest asset, time. Since it takes time to be customer-centric, when acquisition and retention costs are incorporated, in fact it may cost you when you measure yourself on common measures of success (number of clients) in the *short run*. Will a client-centric orientation generate

increased revenue immediately? It's unclear. A client-centric orientation is about building relationships, which will help you acquire the type of clients that you want and retain them for the long run. That is, in Chapter 7 we will provide a detailed discussion of how a client-centric orientation may raise acquisition costs but also significantly raise the value of the customers acquired and the likelihood of retention. It is this short-term-versus-long-term trade-off that lies at the center of a quantitative look at a client-centric versus a revenue-centric firm. Lastly, it is important to mention that a client-centric orientation does not preclude or reduce the importance of profit maximization, as some may believe; rather, just the opposite. A better way to think about it is that a client-centric orientation recognizes that profitability happens one customer at a time, and a client-centric view of your asset book will focus on the heterogeneity among customers and develop ways to maximize it (including the firing of some of those customers).

LOOKING FORWARD

This chapter has tried to introduce you to some of the jargon and structure of marketing as applied to the financial services industry, as well as to the five Cs (customer, company, competition, context, and collaborators) and four Ps (product, promotion, place, and price) framework for thinking about your practice. However, we have not lost sight of the fact that our ultimate goal is to help you construct a marketing plan to improve your practice. The remaining chapters cover the following aspects of that plan, with the following brief preview.

Chapters 2 and 3: Segmentation and Niche Strategies.

Segmentation is the process by which groups of homogeneous clients with similar needs and characteristics are identified. We discuss in Chapter 2 how to use client-level data that are commonly available to financial advisors to form segments of customers. Unlike the ways in which clients are commonly segmented, such as assets under management, we demonstrate an improved set of approaches that allows for superior targeting and product differentiation. Once those segments are formed, you must select the target segment(s) [niche market(s)] on which you are going to focus. Chapter 3 contains both some thoughts on selecting target markets that make the most sense for your financial practice and a description of our survey results that describe a number of niches that our respondents commonly use.

Chapter 4: Branding. In this chapter, we discuss the fundamental role that branding plays in your practice. Branding is that aspect of your practice that uniquely differentiates it from competitors' practices and allows you to represent your core value proposition. Your brand is your most valuable asset, and we will map out ways to build and enhance it.

Chapters 5 and 6: Decision Making and Investor Psychology. While everyone wants to believe that the drivers of choice for his product or service are mostly unique, data suggest otherwise. In particular, we present here the basic steps of decision choice, including awareness, consideration set formation, preference formation, and ultimate choice, explaining along the way the impact that you can have on each stage. In addition,

we recognize that investing is a large-stakes, uncertain series of decisions and that clients do not always act in their own best interest. We will discuss a wide range of psychological research and theory to help you better understand and serve your clients.

Chapter 7: Client Relationship Management. A method central to marketing that allows you to identify profitable clients is the computation of client lifetime value (CLV). This technique is described through hypothetical examples. Furthermore, its application to maximizing financial advisor practice performance is described in detail.

Chapter 8: Advertising and Promotion. As we have described in this chapter, and as will be described in Chapters 5 and 6, it is important to be able to influence clients at various stages of their decision processes. We will describe advertising and promoting yourself and your practice effectively and in a credible way that is entirely consistent with your brand. Our focus will be on describing which forms of advertising are most effective in the financial services industry, depending on the purpose, and suggesting ways to increase the effectiveness of advertising.

Chapter 9: Tactics. While Chapters 1 through 8 discuss both theory and the results of our survey of financial advisors, Chapter 9 presents tactics that you can use to improve your practice in the short term. These tactics include developing your “three words” for branding, constructing your advisory board, and forming your word-of-mouth army, to name a few. This chapter highlights the best practices of the most effective FAs in our surveys.

Chapter 10: Marketing Plan. Obviously, we hope that Chapters 1 through 9 provide you with the details that you need to construct your one-page marketing plan. However, the best way to cement the ideas presented throughout this book is to provide you with a hypothetical sample plan that you can emulate immediately. Chapter 10 provides this and includes advice for starting your transformation to a client-centric practice.

In summary, we return to our goals for the readers of this book. We want you to leave this book with a marketing plan that is concise, provides you with a clear statement of the differential value that you have for a target segment of clients, and allows you to improve your profitability by acquiring and retaining the right customers. This is simply said; now the work begins!

NOTES

1. For reasons of confidentiality, we will refer to the firms we have worked with generically. All programs have been run through the Aresty Executive Education Institute at the Wharton School of the University of Pennsylvania.
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3. Kevin Lane Keller and Philip Kotler, *Marketing Management*, 13th ed. (Upper Saddle River, N.J.: Prentice Hall, 2009).

4. Eugene W. Anderson, Claes Fornell, and Roland T. Rust, "Customer Satisfaction, Productivity, and Profitability: Differences between Goods and Services," *Marketing Science* 16, no. 2 (1997), 129–148; Ruth N. Bolton and Katherine N. Lemon, "A Dynamic Model of Customers' Usage of Services: Usage as an Antecedent and Consequence of Satisfaction," *Journal of Marketing Research* 36, no. 2 (May 1999), 171–186.
5. Bruce G. S. Hardie, Eric J. Johnson, and Peter S. Fader, "Modeling Loss Aversion and Reference Dependence Effects on Brand Choice," *Marketing Science* 12, no. 4 (1993), 378–395; Russel S. Winer, "A Multi-Stage Model of Choice Incorporating Reference Prices," *Marketing Letters* 1, no. 1 (December 1989), 27–36.
6. Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica* 47 (1979), 263–291.
7. John Nash, "Equilibrium Points in n-Person Games," *Proceedings of the National Academy of Sciences* 36, no. 1 (1950), 48–49.
8. Kim Byung-Do, Shi Mengze, and Kannan Srinivasan, "Reward Programs and Tacit Collusion," *Marketing Science* 20, no. 2 (2001), 99–121
9. Robert Aumann, "Acceptable Points in General Cooperative n-Person Games," *Contributions to the Theory of Games IV*, Annals of Mathematics Study 40 (Princeton, N.J.: Princeton University Press, 1959), pp. 287–324; Robert Axelrod, "Effective Choice in the Prisoner's Dilemma," *Journal of Conflict Resolution* 24, no. 1 (March 1980), 3–25.