Welcome to the (client) Revolution

How clients are transforming wealth management

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It's time for a better valuation method for wealth management. Most criteria today rely on objective data points — assets under management, number of accounts, product mix or fee-based revenue. They're important measures for sure, but limited in their ability to accurately predict the potential challenges and opportunities facing the practice.

Savvy buyers of advisory firms have learned to scrutinize the story behind the numbers, such as demographics. A client list dominated by seniors in their 70s and 80s has different service costs and revenue implications than a practice built of mid-range baby boomers 10 to 20 years younger. Likewise, a product lens may reveal healthy fee revenue from managed accounts but mask a lack of estate planning and intergenerational relationships needed to preserve that income. Where valuation leads, management must follow, so let's follow the clients and the advisers most focused on serving them well.

It's a (Different) Numbers Game

The weakness of any empirical valuation is the presumption of persistence — that the clients are happy and loyal. That's an important perspective to test, given that the median high-value client today is a mid- to late-stage boomer, age 63 to 65 and on the cusp of retirement. This is the moment of truth for wealth managers, since this is the time clients begin to get truly serious about planning — often triggered by a life event involving aged parents or looming retirement.

The resulting awareness and willingness to take action favors proactive planners who drive consolidation of assets from among the four to five firms typical of baby boomer households. The consolidation process has winners and losers. It is remarkably easy to be a winner if you are actively engaged with clients. But most advisers simply do not maintain the level of communication and connection needed to be seen by clients as their primary adviser in this most important of life stage transitions. To be fair, most clients are unpredictable with their timing for getting serious, but preparation improves your chances of success.

Be Client-Driven

For an ongoing wealth management concern, the most valuable success metrics reflect how well the practice drives asset consolidation and new wins (referrals). How best to earn those rewards? Ask the clients. Consolidation "winners" are offering something that the clients want and are not receiving from their current array of "relationships."

The two most common reasons clients leave advisers remain "planning" and "relationship." Both are as much perception as fact, too often surprising advisers who assume that all clients know what the advisers can do for them and that they are truly concerned, just thought the clients were all set. Which they were — until they weren't. If you want to beat yourself up some more on this topic, read this artifact and ignore the date — it still tells the story!

Client-Driven Valuation

A better test of a wealth management offering's future value is how well it meets the expectations of future clients. Pause here to absorb the meaning of "future clients." Even a current, long-term client who has not yet consolidated accounts with you is also considered a "client" by three to four other firms. Someone is mistaken — in the future state. Likewise, happily, there are clients you might not know who are looking for you but have not yet found you and will become available if they remain ignored by the firms they work with today.

It isn't far-fetched to imagine that in just a few years, your client list will be radically different based on the timing of the demographic. You win consolidation and new clients from your current base while other advisers lose — and other advisers snag clients you've ignored. This process shows why the demographics of wealth management are the biggest industry disruptor of all. To win this battle, you need a compelling and dependable system built of high-quality parts.

Wealth Management is an Ecosystem

Wikipedia defines an ecosystem as "a community made up of living organisms and nonliving components." A digital ecosystem is a "distributed, adaptive, open socio-technical system with properties of self-organization, scalability and sustainability." Welcome to the cutting edge of wealth management.

Creating the optimal wealth management experience is all about improving the adviser/client experience. To do their best work together, advisers and clients should inhabit a frictionless environment where clients are free to dream, fear and evaluate trade-offs among a constantly changing set of real life challenges. In the ideal state, advisers are able to prioritize their precious time, attending to the most pressing needs of the most valuable clients. In the most efficient practices, clients can self-actualize mundane needs like money movement with a few simple clicks of the mouse, and their advisers are alerted when more complex issues arise — before the clients are aware.

Above all, this perfect world is a partnership based on transparency, objectivity and trust. New prospects arrive regularly based on the ravings of the clientele. The bad apple seeking only to beat the market (every quarter) is politely shown the door. Best of all, the client service team can't imagine a better place to work and passes their jobs along to younger recruits drawn from a robust talent pool.

The essence of wealth management is developing superior client solutions while creating an environment worthy of both our advisers' and associates' best efforts. We know we are making progress only when both parties to the effort — the clients and their advisers — can focus on the highest value issues.

But no single element can carry all the water. The ecosystem provides the interplay between "living" and "non-living" elements — the dual and complementary roles of technological efficiency and human touch. Fintech is not a replacement for advisers, it is a tool set that creates capacity and better service. The second Wikipedia definition — the digital ecosystem — goes further, citing such qualities as "adaptive," "open," "self-organization," "scalability" and "sustainability." The ecosystem is less a collection of parts than it is a dynamic combination of elements that evolve with changed conditions. Competitive wealth management offerings should have the same flexibility. Managing a top wealth advisory practice is a noble calling — a desire to help people and a commitment to improve.

In my next installment, I will break out the parts of a client-focused wealth management offering. I see 10 individual elements, as well as some important managerial concepts that harness the power of those individual capabilities. "Adoption," or how deeply you embed any of the wealth management components, is one perspective separating the market leaders from the pack.

Another benefit of the client-focused approach is prioritization of investment in the practice. Selecting where and how much to invest is a very important consideration. It's not all about hard dollar costs — the decisions on what to do and when to do it are very much dependent on individual firms and your personnel, time horizon and ambition. To quote one advisory firm CEO, "There are aspects we could incorporate now and [other aspects] to make an objective" — an elegant understatement of the challenges inherent in change.

So what investments make the most sense right now, and why? It's time to get more precise about those questions.