Clients for Life

Client acquisition and retention are the two pillars of success for any financial advisor's practice. As every financial professional knows, it can take a major investment of time, energy, and financial resources to bring good clients on board. But it may be even more important to dedicate resources to retaining your clients over the long term.

This has always been true, but it has taken on new importance with the shift from transactional compensation to fee-based advising. In a transactional world, maintaining strong client relationships might bring the client back for more transactions — certainly a worthwhile business goal. However, in a fee-based practice, retaining long-term clients can lead to more substantial continuing revenue. Consider a client with $1 million of assets under management at a 1% annual fee. Over the course of 20 years, that client could generate $200,000 in revenue.

A Retention Plan

Given the potential rewards for a financial advisor who retains "clients for life," it's essential to develop and execute a sound, comprehensive retention strategy. Here are some tools and techniques to consider.

Be a good listener. Make sure you fully understand your client's needs and objectives in order to properly align them with products and services. You may have a great package of financial products, but if they are not the right products for that particular client, the relationship is unlikely to last.

Don't make them guess. Along with listening and aligning, help your clients understand exactly how your products and services are benefiting them in meeting specific objectives. Explain your value proposition in a way that clients can easily understand and embrace.

Teach at their level. Educate your clients on products, services, and financial principles at the appropriate level for each client. An overly complex explanation may lose a less-sophisticated client, while an overly simplistic explanation may lose a sophisticated client.

Offer a comprehensive package. Your clients may need and appreciate advice on financial matters that won't directly generate revenue but could make a big difference in retention. For example, older clients might want guidance on Social Security and Medicare, while younger clients might look for advice on buying a home or paying off student loans. Helping clients with these types of decisions will strengthen their finances and help cement your relationship.

Train your team. Whether you have a single assistant or a large advisory firm, every member of your team has the potential to help retain clients or drive them away. Make sure that everyone in your office fully understands your retention strategy and the principles you embrace regarding financial advice and customer service.

Respond quickly. Timely responses to client requests let your clients know that you are working for them and care about their concerns. The fastest way to lose clients is to be slow in responding to their needs.

Provide platinum service. Along with a timely response, delight your customers with thoughtful and polite service from you and your staff. Politeness rings hollow unless it includes careful listening and communication. When a client calls with a request, he or she should either be fully satisfied in that call or know exactly what to expect in terms of future action.

Share ideas. Inspire your clients with thought leadership so they don't perceive you as simply an order taker. This might be achieved by sharing news articles, white papers, or even texts and tweets that provide interesting information and reflect your own investment and money management philosophy. Some retention support services and software may allow you to tailor content for specific clients.

Stay in touch. Maintain 12 to 18 meaningful client contacts per year. It may be most effective to use a variety of formats:

- Client meetings – 2 to 4 per year
- Newsletters – 4 to 12 per year
- Client events – 1 to 2 per year
- Birthday and holiday cards

Client Dynamics

A PriceMetrix study of client retention found some interesting dynamics that are worth considering as you apply a comprehensive retention strategy to your practice. Although some of these findings may seem to point in one direction or another in terms of clients and pricing, remember that every practice is different. You need to find the right approach to client retention for your practice.

The honeymoon is over. The most critical time period to focus on client retention and attrition risk is from the one-year mark to the four-year mark in a client relationship. The first year is typically a "honeymoon" period, but the next three years can make or break the relationship. Of course, you should never stop working hard to retain your clients, but you may have to exert extra effort in the early years to establish a relationship that will last for the long run.

Bigger is better. More affluent clients (based on household assets) are more likely than less affluent clients to stay with an advisor, but an excess number of small clients (in terms of investable assets) can negatively affect the retention of other clients. More affluent clients also tend to display less price sensitivity. Even so, smaller clients can turn into bigger clients and refer clients who have more assets to invest. It is not wise to discontinue a working relationship with smaller clients, unless you are able to refer them to another capable advisor who is able to help them meet their financial planning needs. To maintain smaller clients with less hands-on effort, some financial professionals use robo advisors.

Older clients are more likely to stay. To some extent, this may be an extension of the dichotomy between larger and smaller clients, because older people often have more assets than younger people. However, this presents a challenge, because younger clients could be the future of your long-term business. If you want to retain younger investors and grow with them, you might have to work harder — with lower return on the front end of the relationship.

There is no magic financial model. Retention can be successful over a broad range of financial models that tend toward the median. However, advisors can undermine value perceptions by pricing too low or can price themselves out of business by pricing too high. The client relationships least likely to be retained are lower priced, fee-based relationships and higher priced, transaction-only relationships.

Hybrids can ease the transition. In general, the retention level is similar for transaction-only and fee-based-only clients. However, retention is somewhat higher for hybrid clients who hold both types of accounts. This suggests that when transitioning to a fee-based approach, adding fee-based services to transactional services might help retention, at least for the short term, rather than eliminating all transactional services immediately.

The more the merrier. It's probably not surprising that clients who have more accounts with an advisor tend to stay with that advisor. This is especially true for clients who have multiple retirement accounts. Once you have established a strong relationship with a client who has other accounts, it may be appropriate to present a case for consolidating some or all of those accounts to your practice. If your client makes the move, your relationship should only become stronger.

Be a Farmer

In order to establish and maintain a successful financial practice, an advisor has to play a variety of roles throughout the client lifecycle. At first, you're a salesperson as you work to turn prospects into clients. Then you are a manufacturer as you set up new clients and produce an appropriate suite of financial products for each client.

In the long run, however, you are a farmer, nurturing your clients and helping them reach their financial goals. And when you are a good farmer for your clients, you are also a good farmer for your practice. Growing clients for life may be the surest way to maintain a thriving, lifelong financial practice.