Client segmentation
The secret to wealth management profitability
In this white paper, we examine why the flexibility to segment and serve customers is crucial in today’s changing marketplace and how, with the right technology, segmentation can boost your firm’s operational efficiency and profitability.

Gaining insights
Customer segmentation enables firms to focus both their client servicing and business development efforts more accurately and efficiently. Customer segmentation is one of the keys to wealth manager profitability. Proper segmentation allows for appropriately tailored service offerings and product development, producing more satisfied clients and helping boost revenue capture and referrals.

In this digitalized, information-laden age, wealth management clients are ever more demanding about the speed and personalization of service they receive. The tools and channels are there. Yet many wealth managers are failing to grasp the opportunities. Instead, they remain wedded to outmoded processes that are costing them time and money.

The segmentation imperative
Is your firm playing to its strengths? Do you truly know what those strengths are? As the wealth management industry becomes increasingly competitive and globalized, it is vital that firms can pinpoint which client types and asset mixes they are best equipped to support, and how they can maximize their competitive advantages and differentiators.

Success will center on how well you can identify your most profitable client universe and provide high quality services to support them. People have different needs and expectations. That means having the flexibility to offer your target clients the right products and right information via the right channels at the right time. Done well, segmentation can help you gain the insights you need into your business to meet those demands, and maximize your share of each client’s wallet.

Dangers of the traditional approach
While the level of segmentation detail is improving across the industry, many wealth managers continue to classify and service clients according to traditional, limited methodologies—usually by grouping clients into buckets based on their assets under management held by the firm and the revenue they generate. The groupings may then be used to offer each segment a standardized menu of products and services.

This blanket approach is far too simplistic. Even where clients may appear alike from a financial standpoint, behind the numbers there can be huge disparities in risk profile, market knowledge, future requirements and communication preferences. These variations call for a very different relationship tack.

For example, one client may want an advisory-based relationship, and will welcome frequent contact to discuss investment ideas. Others with the same level of assets may have little financial acumen or desire to manage their investments, and may prefer an arms-length discretionary mandate. A client’s tax status, age and risk appetite can be of vital importance, as they may determine whether certain investment vehicles are suitable or not.

Unless clients are segmented in an appropriately granular way, wealth managers risk:

• Failing to understand which clients are profitable or not, and what future profitability potential they offer.
• Devoting disproportionate amounts of time and resources to unprofitable or low profitability clients.
• Compromising relationships with clients by not providing the level of service or types of products they want or need.
• Missing out on upselling and cross-selling opportunities by failing to offer customers relevant products and solutions.
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The personal touch

More than ever, wealth management clients want—and expect—a greater level of personalized services. Why not, when personalization has become so much a part of our everyday lives? It is already highly developed in the retail industry, where online shopping sites, supermarkets, and consumer giants have become adept at gathering and analyzing information on customer profiles, behaviors and preferences to better understand their clients and forecast what products and services they may want.

Fierce competition among wealth management providers means firms must work harder to keep clients satisfied. In general, loyalty has been declining, with high net worth individuals more mobile with their money, abetted by a flood of information that makes it much easier to compare providers. Quality of investment advice and performance remain paramount. Increasingly, however, it is by providing the right type and level of services that firms will be able to differentiate their offering, justify the fees they charge, and attract and retain clients.

Often it is the details that matter. The warm glow of personalization could be triggered by anything from remembering a client’s birthday to getting tickets for their favorite sports team. In today’s busy, highly competitive world, the small things can make a big difference. Properly segmenting clients, to provide the necessary detailed analysis and thus the right level of service sophistication, makes that possible. When allied to client-centric technology tools that help advisors provide stand-out servicing and insightful investment guidance and solutions, firms can better meet their clients’ evolving needs and wants and strengthen those all-important relationships.

A better way

Thanks to today’s information age and the tide of regulation, wealth managers have access to far more data about their clients. For example, the various social networks offer opportunities for wealth managers to gain more information about their clients’ status and preferences, both professionally and socially. Meanwhile, tighter suitability requirements and regulatory changes such as the Foreign Account Tax Compliance Act (FATCA) mean wealth managers must gather a lot more detailed information during the on-boarding process, and ensure they keep it regularly updated.

Armed with this level of detail, wealth managers can more effectively segment their client base. Inevitably, needs vary. The level of segmentation and degree of service personalization in part depends on the firm’s type of business and target market. Specialist private banks or niche boutiques that cater to the ultra-high net worth segment, where each client makes a larger contribution to the firm’s overall profitability, will be expected to provide extremely personalized services. Less specialized firms will need to adopt a broader segmentation model—using perhaps five or 10 buckets, with various sub-categories—if they are to get the right mix of cost effectiveness, service personalization and flexibility.

Metrics for better segmentation

Both quantitative and qualitative factors play an important role in formulating a fit-for-purpose segmentation model that can accurately capture each client’s current and potential value to your firm. Elements to consider include:

Total wealth

Classifying clients based solely on the assets held by your firm does not give a true picture of their actual wealth, revenue potential, or service expectations. Identifying their total wealth—including assets held with other wealth managers, real estate, business investments, and personal assets—allows you to determine the potential for acquiring additional assets and the resulting value that relationship could bring, and thus the appropriate level of service to provide.

1 For more insights into the central role technology plays in today’s wealth management relationships, see WealthBriefing and SS&C Advent’s 2015 research Help or Hindrance? The Link Between Technology Provision and Advisor Productivity.
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Demographics
Factors such as age, sex, and family status will affect whether a client is amassing or distributing assets, their investment goals, service requirements, and revenue potential.

Risk profile
Accurately capturing each client’s risk profile is vital to ensure you target the right investment products to the right customers at the right time. Trying to sell them inappropriate products could jeopardize the client relationship, as well as being a waste of your advisors’ time and resources. There is also the risk of falling foul of regulators’ suitability requirements.

Tax status
Various investment vehicles are only appropriate for investors with a certain tax status. Selling a client a product on which they subsequently have a punitive tax liability could diminish your firm’s standing and weaken the relationship.

Fee structures
What is your client’s preferred fee model? Are they resistant to paying fixed fees, but comfortable with performance-related ones? Are they resident in a country where certain fees are tax deductible? By tracking this information you can determine how much flexibility you have to amend your fee schedule, and which clients to focus your sales efforts on when launching new products with particular fee structures.

Career status
Has the client reached a career plateau, or have they just received a major promotion with a big income increase? Is the client a young entrepreneur with a rapidly growing business, or a near-retirement company owner about to pass over the reins? Such factors will have a significant influence on the products they are interested in, their future potential value and how they should be serviced.

Communication preferences
There is no single definition of great service. Knowing your clients’ communication preferences will help strengthen the relationship by ensuring you can respond to their service expectations in the desired way. Some clients prefer traditional contact through phone calls or face-to-face meetings. Others, especially the upcoming digital natives, may prefer to communicate electronically via email or social channels. When and how frequently they want to be contacted will vary as well. For example, busy people who are always on the road may only want to be contacted in the evenings or on weekends. Getting these touch points wrong risks causing annoyance.

Network value
The value of some client relationships may extend beyond the direct revenue they generate personally. While some clients may not be growing their assets or be particularly profitable themselves, over the years they may have referred many good clients to your firm.

Having the right network can be extremely important. A client who is well connected in a potentially lucrative target segment (professional athletes, movie actors, lawyers) could prove hugely profitable if the quality of service they receive converts them into advocates for your firm.

Cost to serve
Some clients may take up so much of an advisor’s time, or want such an individualized service—for example, highly tailored reporting that takes days to prepare—that it is not cost effective to retain them as a client. In such situations, if the client cannot agree either to reduce their service demands or increase their fee, it may be better to terminate the relationship.

Having the right segmentation gives you the necessary insights to see what service levels you can deliver, and whether the service expected by a client is sustainable. In this way, you can focus on providing a best-in-class service for your segment sweet spots and enhance the long-term profitability of your business.
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Reaping the rewards
Formulating and implementing a detailed client segmentation project takes an investment of time and resources. But the rewards for action, and penalties for inaction, make it well worth the effort.

Increase productivity
Through effective segmentation, you can more accurately pinpoint the current and potential future profitability of your clients. With these insights, you can optimize the amount of time and level of advisor support devoted to serving each client, helping improve your cost-income ratios.

Efficient product and service mix
Segmenting clients into better defined groups allows you to tailor the appropriate products, service models and fee structures to them, thereby enhancing the efficient allocation of internal resources and driving profitability improvements.

Marketing focus
Many sales and marketing campaigns adopt too much of a scattergun approach, producing a low return on marketing investments. Ensuring product sales efforts and the investment advice provided to each client are appropriately targeted will result in a much better return on your marketing efforts. It increases the chance of selling new products and attracting more assets, helping to improve the firm’s profitability. While more difficult to quantify, it can also enhance client satisfaction, loyalty, and the prospect of future referrals.

Business development opportunities
The future success of your firm will depend on establishing, and subsequently reaching, ambitious yet realistic business development goals. By capturing more targeted information about your existing clients and the success of your current business model, you will be much better positioned to determine which segments to target and how best to serve them.

Management oversight
Awareness is the first step to sustainable improvement. More granular client analysis allows management to track whether their teams are spending time intelligently on clients who contribute to revenue growth. Feeding this information back to advisors then creates a virtuous cycle of performance enhancements.

Tools of the trade
To be truly effective, the segmentation process requires automation. Accurately defining clients involves collecting and tracking reams of information on a multitude of characteristics, and identifying patterns among them. The process must be based on facts, not assumptions. There is simply too much disparate and fast-moving information for it to be handled manually.

The first step is to ensure your firm’s IT and business strategies are fully aligned. If the business plan rests on targeting certain segments—for example, the mass affluent or ultra-high net worth markets—it is vital the technology is in place to support that objective.

So what goes into the right technology infrastructure?
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Integrated data hub
High quality, automated data management is the lifeblood of segmentation. Wealth managers need to gather, normalize, store, and analyze as much relevant data as possible on each client’s profile, objectives, and behavior. This includes collecting static client data (name, social security number, address) during the on-boarding process, then tracking more dynamic elements, such as their investment preferences, family relations, industry in which they work, job position and other factors.

For instance, some wealth managers are successfully leveraging clients’ social media networks as information sources. By establishing automatic data feeds from Facebook or LinkedIn, firms can receive populated alerts any time the client makes a relevant update. So if a client gets a new job or wins a promotion, the wealth manager can promptly congratulate them (helping to strengthen the relationship), as well as assess the impact on their financial status and thus the types of products and services that would be relevant for them.

Sophisticated data analytics are also becoming more prevalent. By feeding the analytics with high quality data on client risk profiles, advisor interactions, fee structures and product margins, firms can better identify and segment target clients, determine the best products to sell them and provide matching levels of service. In addition, robust data management, with a transparent audit trail, is vital to helping wealth managers meet their regulatory suitability obligations.

Client Relationship Management (CRM) System
A robust CRM system will help you better understand your clients and remain responsive to their individual needs. By integrating both personal and portfolio data, and keeping track of all conversations, correspondence, client directives and decisions in one centralized system, the wealth manager can maintain a current, consistent and holistic view of each client, with fingertip access to that information during any meetings or communications.

For example, if a client has a change in risk profile, using the CRM system you can show the client any changes you made to their portfolio in response, and how that affected the associated risk and investment performance. The capability to demonstrate to clients the value your firm is providing is another way to strengthen those relationships and enhance customer retention rates.

Furthermore, by centralizing and maintaining the client knowledge and portfolio information in an enterprise-wide system that the firm’s portfolio managers, client relationship, and marketing staff can all access, you can provide more consistent and responsive service, and limit the key employee risk associated with staff departures.

Performance and risk analysis
The challenge for wealth managers, especially in today’s low interest rate environment, is to keep within each client’s specific risk boundaries and still provide market-beating performance. A performance measurement engine with sophisticated performance attribution and analytics can break down a client’s investment performance to determine, for example, how much comes from your stock picking ability or asset allocation skill, and whether the risk in the portfolio stayed within agreed parameters.

Armed with these figures, you can gain valuable insights into how to improve your performance going forward, and tell a powerful story about the professionalism of your investment strategy. This transparency is vital in earning and maintaining clients’ trust, and thus sustaining the relationship.

2 To find out more on better data management, see our white paper Data Services: How to Keep the Lifeblood Flowing.
3 Research by WealthBriefing and SS&C Advent found 25% of wealth management advisors rate the audit trails generated by their firm’s investment platform as poor/very poor, with a further 25% giving only an average rating. For more information see Help or Hindrance? The Link Between Technology Provision and Advisor Productivity.
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Conclusion

Client segmentation is central to wealth managers’ future success. The client service experience is, and always will be, a key competitive differentiator, one that will have a major influence on your client acquisition and retention rates. By identifying more specific and relevant client groups, you can better customize your service offering to their requirements to create the personalized experience they seek.

At the same time, segmentation can provide valuable insights into the performance of different areas of your business. It will help you determine the true profitability of your clients, and where to target your product marketing and service delivery efforts, both to optimize your internal efficiencies and achieve the greatest revenue results.

It is impossible to build and manage an effective segmentation model, though, without the right pieces of the technology puzzle. Tried and tested solutions exist. The challenge lies in aligning your technology with your business strategy, and making the necessary systems changes and investments where gaps occur.

Segmentation, properly done, may be no easy task. But can you afford not to do it?