

## Shattering Illusions of Loyalty

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April 1, 2006 - From TV commercials to company taglines, we hear the same lines over and over again: "The client always comes first. Our business is all about our clients. Our priority is building client relationships."

With this kind of emphasis, you might assume that most financial advisers enjoy lifelong relationships with happy, loyal clients. Indeed, industry research shows that most advisers believe they do have loyal clients. They're wrong.

A study of 512 advisers by CEG Worldwide Senior Managing Principal Russ Alan Prince found that four out of five (79.3%) perceive that 75% or more of their affluent clients are loyal. For these advisers, loyalty means having a good rapport with clients or feeling like they've done a good job for them.

But when clients are asked about their loyalty to their advisers, we hear a different story. Another study in which Prince had a role, this one of 1,417 clients--each with between \$500,000 and \$5 million in investable assets--found that only 13.8% could be described as loyal to their primary financial advisers (PFAs).

Another 39.3% were defined as satisfied, leaving the rest (46.9%) only moderately satisfied.

Obviously, there's a gap here between advisers' perceptions and clients' reality. By simply assuming that clients are loyal, these advisers fail to take the specific steps that will build loyalty--and thus miss out on a tremendous opportunity to grow their business.

### The Value of Client Loyalty

Just how important is client loyalty to the success of a practice? We can measure it in five different ways:

**1) Providing additional assets.** The aforementioned client study found that loyal customers are much more inclined to give additional assets to their financial advisers to manage. During the 12-month study period, loyal clients each gave an average of \$376,000 in assets to their PFAs. That's 22 times greater than the amount given by moderately satisfied clients to their PFAs, which was just \$17,000. (The study defined a PFA as one who manages the majority of a client's money.)

**2) Providing referrals.** Advisers who build client loyalty enjoy an important perk that frees them from prospecting: Their clients provide them with plenty of qualified referrals. Looking back over the yearlong study period, loyal clients on average provided 11.8 referrals for qualified prospects. Satisfied clients provided very few (2.1 each on average), while moderately satisfied clients provided almost none--just 0.1 on average.

**3) Purchasing additional financial products.** Loyalty makes a substantial difference in clients' inclination to buy noninvestment financial products from their advisers. The study found that loyal clients generated about \$119,000 each from

noninvestment product sales. In sharp contrast, moderately satisfied clients generated only \$9,000 in additional, noninvestment product sales.

**4) Taking away assets.** About one in six (15.9%) moderately satisfied clients took away more than \$100,000 of investable assets from their PFAs during the study period, as did about one in 10 (9.8%) satisfied clients. Advisers with loyal clients had little to worry about in this area. Not one of their loyal clients transferred away this amount of assets.

**5) Leaving completely.** Clients leaving their advisers is the ultimate sign of a lack of loyalty. The study found that 21.2% of moderately satisfied clients and 10.1% of satisfied clients are very or extremely likely to transfer their portfolios to another adviser within the next two years. In contrast, not one loyal client reported any plans to leave his adviser.

### The 6 Cs of Client Loyalty

How, then, can you create the kind of deep loyalty among your customers that will help ensure your success? The client study identified the following six core characteristics that these investors want in their advisers--each one being critical for building authentic loyalty.

**1) Character** is about the personal qualities clients look for in their financial advisers. Integrity is perhaps the most important quality--all clients must believe their advisers are honest.

**2) Chemistry** is the ability of advisers to be in sync with--or connect with--their clients. They know what these investors want to talk about.

**3) Caring** is a genuine concern about clients' well-being. Advisers should view their clients as people--not just as a way to make money.

**4) Competence** is about being perceived as an intelligent expert in the field. The more financial advisers can demonstrate and communicate their competence, the more loyal their clients become.

**5) Cost-effectiveness** entails clients receiving true value for the cost of services and products.

**6) Consultative** is the most important factor, because it frames the entire adviser-client relationship as an ongoing partnership over time. This makes it the most effective characteristic for building client loyalty.

### The Consultative Advantage

Everyone talks about being consultative these days. Unfortunately, a true consultative approach is rare. To understand what it takes, we break it down into two major components:

**Cooperative orientation.** Many advisers believe their job is to hold wealthy clients' hands and take care of everything for them. While this may be the case

with some affluent investors, the majority prefer a more collaborative relationship with their advisers. After all, most of these clients acquired their wealth through hard work and business savvy. It would be a mistake to discount this experience. Instead, work with your affluent clients. Not only will you tackle their challenges more effectively, but you'll also win their loyalty.

**Appropriate contact.** You'll build loyalty among your wealthy clients by contacting them appropriately--and not only about their money. The client study tells us that the most loyal customers are each contacted an average of 24.1 times per year by their advisers on noninvestment matters. In contrast, moderately satisfied clients are contacted about noninvestment matters an average of just 0.6 times each.

### Building Client Loyalty Through Quality Communication

So it's not only the frequency of your contact that's important, but it's also the substance of that contact. Clients obviously want to be contacted about their financial affairs, but the advisers who have succeeded most in building loyalty also know that clients want contact on noninvestment subjects as well. It's the discussion of topics like family issues, current events and the like that foster the close interpersonal relationships that are crucial to client loyalty.

To have these types of conversations, you must know what's important to your clients beyond their investments. To gain this kind of understanding, you should probe six additional areas:

\***Values.** What's most important to the client about money?

\***Goals.** What are the client's personal and professional goals? Where would the client ideally like to be at age 55, 65 or 75?

\***Relationships.** What family-member relationships are the most important? How important are relationships with coworkers or with people in the community?

\***Advisers.** Does the client have a lawyer? An accountant? What were the client's best and worst experiences with other professional advisers?

\***Process.** How involved does the client want to be in managing his finances? How often does the client want to hear from you? Does the client prefer contact via phone, e-mail or face-to-face meetings?

\***Interests.** What are the client's hobbies? Charitable causes? Favorite sports teams?

You should actively use this information in your client contacts. Most advisers simply meet with their clients once per quarter or once per year to review portfolio progress and inquire about other financial needs. But it's better to take the initiative to contact clients on the issues you know they care about.

Have a client who has aging parents and has been wrestling with how to care for them? If so, when you see an item in the news about elder-care solutions, send it

to the client along with a personal note. How about a client with a child who has been diagnosed with a particular medical condition? When there's news of a breakthrough in the treatment of the condition, a quick call to the client is in order.

To be sure, this kind of quality client contact takes extra effort, but the rewards are substantial. As we've seen, increased assets, additional referrals and improved revenue all go hand in hand with greater client loyalty.

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