

How Well Do You Really "Know Your Customers"?

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Over the last few years, as UK regulator the Financial Services Authority has sought to improve the quality and consistency of investment advice given to the consumer, we have all become accustomed to the need to "know our customers". As a result most wealth managers and IFAs will have deployed various systems and processes to capture and record the numerous items of data required to underpin their advice.

However, while this compliance-driven approach to client data capture may be "necessary" one might question whether it is "sufficient", i.e. being used to its fullest extent to manage the profitability of existing client relationships and to identify the characteristics required of new, more profitable, clients.

With the FSA now seeking to fundamentally change the landscape for regulated investment business with its Retail Distribution Review, surely now is the time for wealth managers and IFAs to revisit the way they manage their clients.

The Pareto Principle

As with many things in life the Pareto principle applies: wealth managers and IFAs will probably find that 80 per cent of their profits are derived from just 20 per cent of their clients. But, which are the most profitable 20 per cent and how might that percentage be increased? The answer is, of course, for wealth managers and IFAs to gain a better insight into their current client base and to identify those characteristics that best describe the "20 per cent". At Focus Solutions we recommend the following methodology:

- Identify revenue per client
- Establish costs per client
- Calculate profit per client
- Identify client characteristics
- Enhance existing client margins
- Identify revenue per client

Cost/revenue analysis

When conducting this sort of client segmentation and profitability analysis it is important to consider both the "cost" and "revenue" sides of the argument, in order to avoid the presumption that high revenue clients are automatically the most profitable. This kind of analysis will start to tease out the characteristics that differentiate the profitable from the unprofitable.

Perhaps the most challenging aspect of this process is keeping an open mind and remaining objective in the analysis, as the characteristics that define the most profitable clients are sometimes surprising. For example, these characteristics could span a wide range of the more obvious parameters such as size of portfolio, geography and demography, but they could also include more subtle variables such as their needs, wants, aspirations, behaviours and attitudes.

The analysis might show that those with high-pressure jobs are most willing to "outsource" the management of their financial affairs, meaning that the most precious thing to them is their personal time and they will pay a premium price for a service that maximises this. Similarly, those clients that already use other professional advisors, such as accountants or solicitors, may have a general propensity to seek advice and hence, have a willingness to pay for professional financial advice.

Extending the analysis

Whatever this analysis reveals about the most profitable 20 per cent of clients it is important to then extend this analysis

to look at the other 80 per cent. This will enable the identification of groups of clients that have similar requirements and allow the creation of new propositions and charging structures to meet these differing needs in order that the clients receive a more appropriate level of service and the wealth manager or IFA enjoys a better margin.

For example, there is likely to be a segment of clients that want (and are willing to pay for) a highly tailored and personalised service where there is a lot of regular contact and frequent formal reviews. This is likely to appeal to those with a strong propensity to make use of other forms of professional advice. Similarly, there will be the "outsourcers" - those seeking to save as much time as they can.

"Championing" client segments

To ensure the successful management of these segments it is a good idea to identify "champions" within your business to promote the development of propositions for each client segment; perhaps by selecting the relationship managers or advisors that most accurately understand, or are like, that group of clients. This is important because "people like people like them" and therefore they will be more inclined to develop deeper relationships with people with whom they can identify. Again, this should be based on the more subtle criteria such as needs, wants, aspirations, behaviours and attitudes that have been used to profile the customer base.

Kleinwort Benson is a firm believer that this approach to client segmentation and management is central to their ability to deliver great service to their clients and it now underpins the UK private bank's business model.

However, this sort of analysis and operational deployment is, of course, only possible if organisations put in place a robust management information strategy which is itself underpinned by a suitably robust technology platform that supports the right sort of processes and can capture and analyse the necessary data. "Knowing your customer" is no longer about just ticking the compliance box but is key to delivering exceptional customer service and profitability to your firm.