

The Paragon Advisor

Concentrate on the 20% that Counts

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What percentage of your revenue comes from the top 5% of your clients? When you segment your client base, the results are often surprising. Some advisors think as little as 10% of their revenue comes from their best clients, but in reality, your top clients probably generate 25% to 30% of your revenue.

Take a look at your practice. It's likely that it conforms to Pareto's Law: 80% of your revenue coming from 20% of your clients. It follows that the top 5% of your clients produce a large percentage of that revenue.

In your practice you intuitively emphasize what has worked in the past:

- When a marketing activity brings new clients, you emphasize that activity and eliminate activities that do not produce results.
- When a financial concept resonates with a client, you use it and avoid concepts that have no impact on the client.

Yet when it comes to clients, some advisors offer everyone the same service. Approach client service the way you approach any other business process; focus on what works. If 80% of your revenue comes from 20% of your clients, focus your efforts on serving those clients and on finding more clients like them.

Of course, you have a relationship with your clients, and it does not feel right to abandon clients like a failed marketing idea. Everyone in your client base should receive the service they need. Fortunately, clients with smaller, simpler situations will generally need less time.

When clients listen to you, when they bring you assets, when they are inclined to save — these are the clients you should be spending time with. The purpose of segmenting your client base is to help you:

- Identify your best clients in order to focus on them more fully
- Understand your best clients so you can serve them more effectively
- Profile your best clients so you can clone them more easily

Once you identify your best clients, you will find commonalities between them. The common theme could come from any aspect of your practice—advice needs, industry, investment approach or hobbies. It might be legacy planning, your client education, the interests you share or the agenda you prepare. It may also be two or three of these things. Emphasize the threads in structuring and promoting your practice.

Once you have found some common threads between your best clients, you can profile these clients and describe them to referral sources. If you know what you are looking for, it is much easier to find it. Think back to your last car purchase. Once you identified the car you wanted, did you see many more of those cars on the roads? When you know what you want in a new client, you will find more clients just like the ones you already have.

How to segment your clients

In segmenting your client base follow this step-by-step approach:

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1. Begin with a spreadsheet listing your clients, their assets under management (AUM) and their gross revenues.
2. Sort the list by AUM.
3. Calculate total AUM, total revenues and the number of clients.
4. **Separate the clients into four segments:**
 - a. **The top 5% (percentiles 1 through 5)**
 - b. **The next 15% (percentiles 6 through 20)**
 - c. **The next 30% (percentiles 21 through 50)**
 - d. **The final 50% (percentiles 51 through 100)**
5. For each of the segments, calculate the subtotal AUM and subtotal revenue.
6. For each of the segments, calculate the percentage of AUM and revenue to the total.
7. For each of the segments, calculate the average AUM and revenue per client.

A real example

In this example of segmentation, 6% of the clients produce 24% of the revenue. (The numbers are rounded so the calculations may not work exactly.)

Investable Assets	Number of Clients	Assets Under Management	Revenue	Average Revenue per Client
Less than \$100,000	115	\$3,400,000	\$41,000	\$400
\$100,000 to \$500,000	130	\$33,000,000	\$250,000	\$2,000
\$500,000 to \$1,000,000	40	\$28,000,000	\$170,000	\$4,000
Over \$1,000,000	18	\$28,000,000	\$147,000	\$8,000
Grand Total	300	\$92,000,000	\$600,000	\$2,000

Of the 58 clients with more than \$500,000 in assets, 21 clients came from two companies. From this analysis, we prepared a list of services that serves the employees of these companies well. We created a profile of these clients and identified ways the practice could differentiate itself in the market. We created a marketing plan that focused on acquiring more clients like the best ones in the current practice.

Just as importantly, we met the servicing needs of the other client segments. The strategy is to gradually assign clients that do not meet their profile to junior planners, planners who can devote the time needed to serve those clients' needs. Yet the junior planners and their clients can tap the expertise of the senior planners when needed.

Summary

Whether you use less expensive staff to provide service or reduce the complexity of the services you provide, your goal is to meet the needs of clients with lesser AUM through services that are profitable based on their revenue. Likewise, you want to meet the needs of your clients with more AUM through services that are profitable (but not excessively profitable) based on their revenue.

Advisors run their practices in many different ways. Some provide asset management to clients with less than \$25,000 and some will not accept a client investing less than \$5,000,000. Use your own categories to segment your clients. The most important thing is to segment your clients in some way. Do not complain about clients who demand excessive service if you have not defined services that are appropriate for the revenue generated. Likewise, devote appropriate time and resources to your best clients based on their revenue.

By segmenting your client base, you can clearly see the value your best clients provide. With that knowledge, you can refine your service model and your client profile to concentrate on the 20% of your practice that counts.

John Comer, CFP®, principal of Comer Consulting, LLC, helps financial planners define and communicate their Carriage Trade Experience. Every financial planner needs to find ways to provide an extra level of service to their best clients. Every financial planner has a unique combination of service and advice that defines that compelling client experience, that Carriage Trade Experience, for their practice. To learn more, contact John at john@jcomerconsulting.com.
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