The Science Behind Why You Lose Clients and How College Planning Dramatically Reduces the Risk

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OVERVIEW

It's no surprise to any financial advisor that eventually, you'll lose a client. It's also no surprise that the resources necessary to retain clients are considerably less than those necessary to attract new ones. There are two key questions every advisor must ask themselves:

1. Will I stand by idly while my clients abandon me?
2. Can I prevent or significantly reduce the odds of client attrition in my practice?

While I cannot answer the first question for you, the answer to the second is an emphatic "YES!"

A recent study * by PriceMetrix of 7 million retail investors with collectively $3.5 trillion in investments provides great insight to advisors willing to take heed. What follows is a list of characteristics of those who have chosen to STAY with their current advisor followed by a corresponding aspect of college planning (beyond the incorporation of 529 plans as the sole element of college planning).

The timeframe within which most client departures occur is between 1 and 4 years. The study finds that the first year is somewhat of a "honeymoon" period; however, the subsequent 3 years is a period of constant evaluation and weak bonding. Simply stated, an action plan with specific and ATTAINABLE objectives covering a 4+ year period with a minimum of quarterly contacts is crucial in spanning the first 4 year period. Just to suggest that projecting a retirement condition which might be more than 4 years in the future is not enough. Market performance may negatively impact the perception of the client and thus lead to separation. The study would suggest that a relatively short term (4-5 years) objective with interim deliverables showing progress and action steps REQUIRING client contact during that term is a best practice for client retention.

The single most obvious focus that fits perfectly towards the attainment of that condition is College Planning. Done properly, the client is engaged prior to the college years with the greatest interest and motivation coming in the 1-4 years (the high school years) prior to sending a child off to college. During the high school years, with college costs looming ominously on the horizon, urgency (in same cases panic) sets in for most families. It is also during these years that many decisions can be made and plans put in place that can help to ensure an excellent outcome for the student and cost savings for the parents. Therefore, this is the ideal timeframe for regular client engagement and the implementation of a college financial plan that focuses on cost-reduction strategies. With a significant number of planning steps leading to a reduction of out-of-pocket expenses and a handful of academic steps that typically occur in that timeframe, the coordination of a college selection and college funding strategy is a natural fit for heightened client engagement across the 4+ year crucial time period. Furthermore, progress is not dependent solely on market performance but on the achievement of benchmarks culminating with the students' college selection and completion of the plan.

From the study:

> Our analysis indicates that the conditional probability of retention at first decreases only slowly. The probability of a retaining a client in the first year is high (0.95 at 12 months). There is a 'honeymoon' period in wealth management advisor/client relationships! The probability of retention decreases between 12 and 48 months – from 0.95 to 0.74. It appears that it is during this time clients determine whether the advisor relationship meets their needs, and if not, they decide to leave. Around the 48-month mark, retention tends to stabilize, with the probability of retention decreasing from 0.74 at 48 months to 0.70 at 60 months.
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> This suggests that clients who have remained with their advisor for five years have by this time elected to remain for the long term. In working to retain (and grow) their business with their clients, advisors should keep these different stages of the client relationship in mind, and redouble efforts to demonstrate the value they provide during the <u>critical first year to fourth-year time period</u>. The data indicate that it is during this time period that clients make the decision to leave or stay for the long term.

The age of a client is another consideration in client retention. The study shows that older clients tend to stay with their advisor at a rate considerably higher than younger clients. Once again, a college planning parent is generally in their mid to late 40s and early 50s, better than halfway through their career and facing considerable financial concerns in the midst of addressing an imminent retirement as well as an impending and significant cost of college, often for multiple children.

Retention by account type is yet another factor to consider. The study suggests that the retention rate of clients who are FEE-based is higher than clients who are TRANSACTION ONLY. However, those clients who are a HYBRID (both fee and transaction relationship with the advisor) have the HIGHEST RATE OF retention.

College Planning has been demonstrated to provide an obvious fee-based service. Strategies implemented as a result of that service can be structured in any manner necessary, but to achieve the hybrid client, transaction-based product solutions are typical in college planning, most often a result of the inclusion of insurance-based products.

Depth of the client relationship is yet another factor impacting retention. While the study identifies the number of accounts and the inclusion of a retirement account in the relationship as key, another factor could arguably be the incorporation of the entire family in the planning process. Efforts involving the development of a college plan must simultaneously address a client's retirement expectations. A focus on one without consideration of the other is destined to negatively impact the out-of-focus objective. Additionally, although not cited in the study, a head-of-household only relationship with the advisor is obviously more superficial than the bond formed when the entire family is involved in the process. Good college planning involves not only the parental clients, but the student(s), and oftentimes the grandparents, as well.

Speaking of the grandparents, here is another reason your clients will leave you – no matter how much they love you – because sooner or later, they are going to die.

The challenge many advisors are facing today and will face even more so over the next 10-15 years, as the Silent Generation (1925-1946) passes away, is maintaining assets under management when the heirs are NOT clients of the advisor. The result for many advisors may be a significant exodus of wealth from the firm over time.

Turns out that a basic application of college planning concepts can provide a solution to the vexing problem in instances where your clients are grandparents who will be helping fund their grandchildren's college education. **READ MORE HERE >**

CONCLUSION

Client retention should be a key concern of any financial services professional. Costs associated with client retention have been demonstrated to be significantly less than those required to attract new clients.

The TYPE of client and the conditions under which that client is engaged can have a dramatic effect on client retention. The integration of College Planning (beyond 529 savings plans recommendations) is a natural fit in light of the factors cited in the study as impacting client retention.

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***STAY OR STRAY – Putting some numbers behind client retention:** referenced by permission**