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# The \$71,000 email and the art and science of client retention

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The next time you are deciding whether to reply to your client's email now or later, just remember your decision could be worth \$71,000 or more.

## When 5 becomes 95

Client retention is regarded by many as the cornerstone of a successful, sustainable advice practice. And with good reason(s). The Harvard Business Review<sup>[1]</sup> tells us the cost of acquiring new customers is at least 5 times more expensive than keep existing ones. Furthermore, research by Bain and Company<sup>[2]</sup> (founders of the Net Promoter Score system) has shown that a mere 5% increase in customer retention rates can increase profitability between 25 and 95 percent. Existing clients can also be the engine room of future growth, as a loyal customer is likely to be an advocate for your business, and the more advocates you have, the greater the number of new customers you are likely to attract.

But despite the compelling mathematics, not every business focuses as much on retention as they should. Research published by US company Invesp<sup>[3]</sup> suggests 44% of businesses prioritise new acquisition, compared to only 18% who prioritise customer retention.

## The value of client retention in Australia

In the context of Australian financial advice businesses, the picture is a mixed one. 2017 research by Investment Trends<sup>[4]</sup> suggested advice client numbers were in reverse, with advisers losing three clients for every two they gain. More recently<sup>[5]</sup> however, it was suggested "client retention rates for average to well-performing practices tend to sit in the

range of 94 per cent – 98 per cent”, meaning the average client lifecycle is anything from 16 to 50 years, a far more positive picture!

Digging a bit deeper on those numbers, businesses with a 95% retention rate lose 5% of their customers each year. Using the customer lifespan calculation rule of thumb of 1 divided by the attrition rate<sup>[6]</sup>, this gives us an average customer life span of 20 ( $1/0.05 = 20$ ). Applying a 20-year lifecycle to the industry average revenue per client of \$3558 (as recently revealed by Business Health<sup>[7]</sup>), we arrive at a Lifetime Customer Value of \$71,160. A practice with 150 clients would theoretically therefore have a total lifetime customer value in the vicinity of \$10 million.

Improve the retention by just 1% – to 96% – and your average client is sticking around for 5 more years ( $1/0.04 = 25$ ), seeing \$10 million in customer lifetime value rise to over \$13 million.

Regardless of the inherent weaknesses in using average revenues, the message is a clear one: **Client retention is financially powerful.**

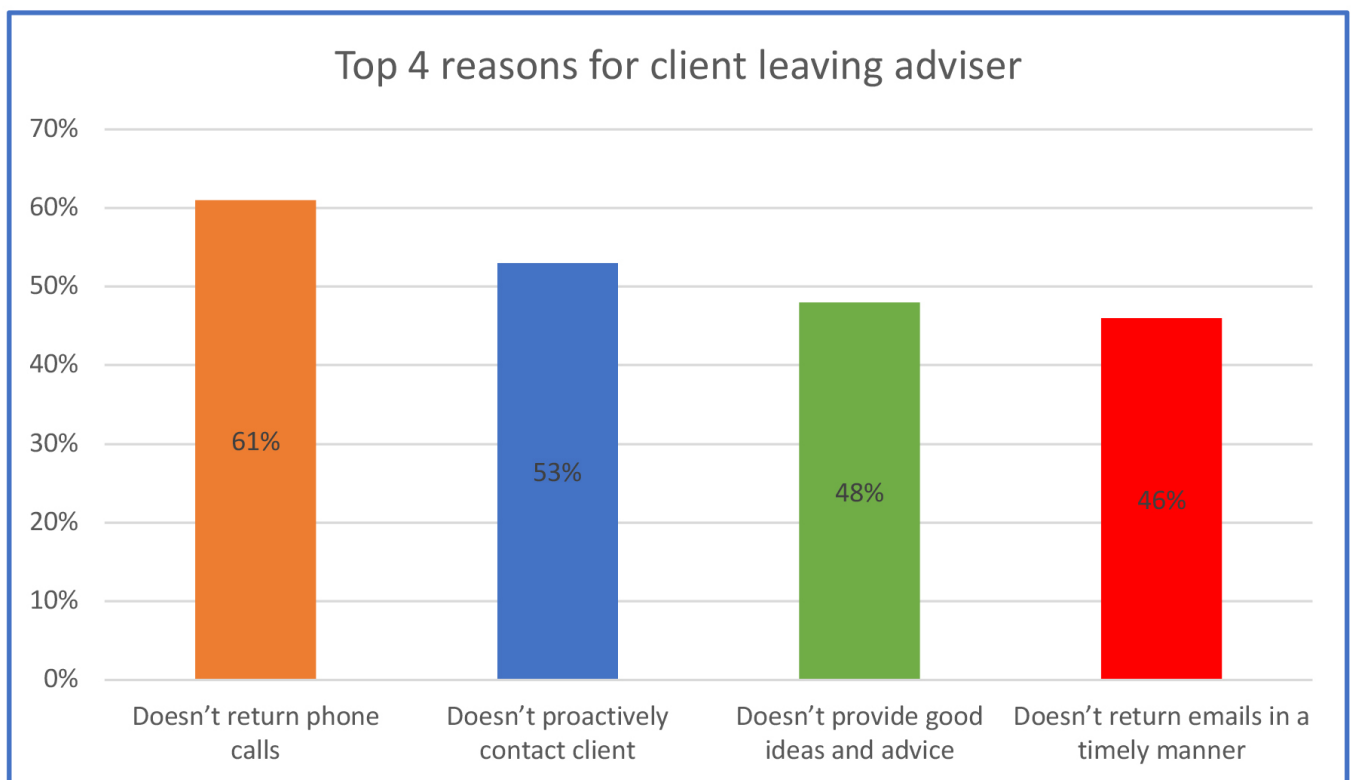
Of course, that’s not to say it’s easy. However, with a level of insight into the science of when and why clients leave, it becomes possible to develop a robust approach to client retention, beyond simply ‘doing a great job’.

### Why clients leave

There are an infinite number of reasons a client may leave their financial adviser, many of them beyond the adviser’s control. What is clear is that simply making money for your clients, or reducing their tax bill, is not enough. A number of research studies on this topic have consistently found that sharpening some basic communication and relationship management skills can go much further in deepening customer loyalty.

For example, a Spectrem Group study<sup>[8]</sup> of financial advice clients with \$1 – \$5 million in assets found that three of the four most highly cited reasons for leaving their adviser were communication related:

**Figure 1: Top 4 reasons for clients leaving their financial adviser**



Source: The Spectrem Group

These findings are consistent with the Australian study, The Trusted Adviser<sup>[9]</sup>, which found the reasons clients choose an adviser in the first instance are largely based on interpersonal skills, including communication, rather than technical competence.

## When clients leave

Knowing when clients are likely to leave allows retention to become more targeted. Several studies suggest the probability of retaining an advice client over time can be depicted by a 'u' shaped graph.

PriceMetrix<sup>[10]</sup> found the 12-month retention rate for financial advice clients is typically around 95%. However, in the 3 years following this 'honeymoon period', retention rates drop to 74%. The good news is that they found rates then started to stabilise before climbing again.

Macquarie research<sup>[11]</sup> on this 'vulnerability window' found a similar result. Their 2014 survey of 1,283 advice clients found that engagement levels fell sharply after year three of the relationship, before rising again towards year 10 and beyond, suggesting if you can retain clients through these fallow periods, you are likely to have won their loyalty for life.

## Client retention – art or science?

There a range of strategies advisers can employ to improve client retention. But in order to design and apply such strategies successfully, advisers must first understand the principles of trusting relationships, and the value clients derive from the advice process itself.

### 1. Successful client/adviser relationships are based on trust

Discussing personal financial assets, personal life goals, and articulating plans for achieving those goals relies on trust, candour, and a client's willingness to be open and potentially vulnerable. These characteristics are the essence of special and endearing relationships.

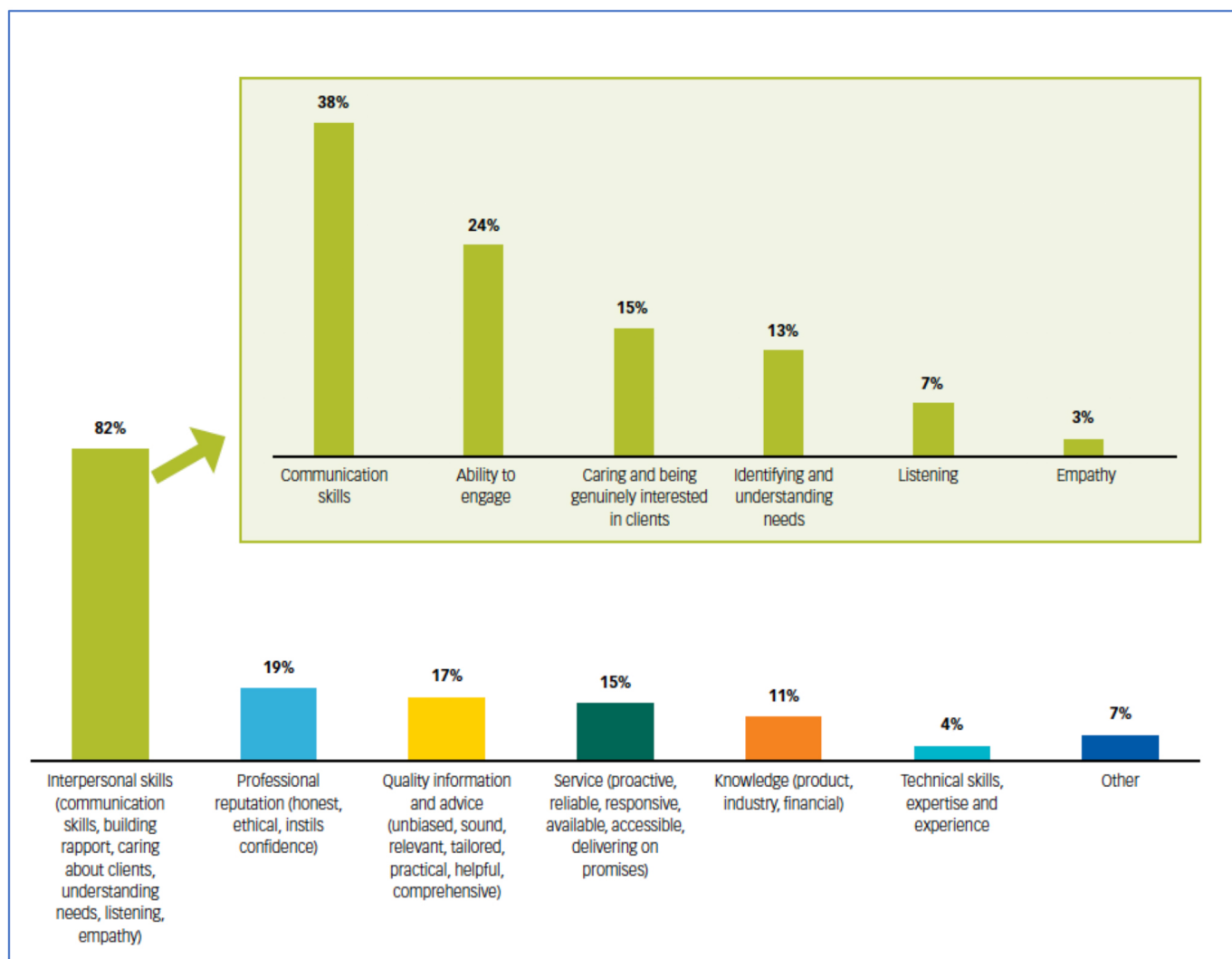
Clients who ordinarily wouldn't dream of seeking out a counsellor or therapist will find themselves talking to their financial adviser about incredibly personal and emotionally charged topics such as a pending divorce, the aftermath of losing a loved one, caring for a special needs family member, or leaving a bequest. Thus, financial advisers, whether they planned for it or not, may become personal coaches and counsellors for their clients, providing therapeutic value, perhaps without even realising it.

#### How to build trust

Trusted advice relationships are built on the same principles that underpin strong personal relationships – taking a genuine interest in your clients' lives (beyond the functional boundaries of their finances), keeping promises, and communication.

As previously highlighted in Figure 1, communication – or the lack thereof – is the main reason clients choose to end the relationship with their adviser. Figure 2, below, reinforces this finding, showing it is the single most important attribute a client seeks in their adviser.



**Figure 2: What clients look for in a financial adviser**

Source: The Trusted Adviser<sup>9</sup>

For providers of any professional service, a reasonable level of communications competency should be considered a hygiene factor, with the importance of non-verbal communication and active listening obvious.

But there are unique aspects of the financial adviser/client relationship that require more refined communication skills.

Money is a taboo topic for many<sup>[12]</sup>, not easily discussed, even among family

members. Moreover, money represents security, self-esteem, ego, and other significant psychological needs, often manifested in secrecy and denial.

Higher level communication competencies needed by advisers include:

- Editing verbal and nonverbal messages (so there is fidelity between the message intended and the message the client receives). Recapping and paraphrasing can be helpful here.
- Empathic listening – getting a sense of the feelings that the speaker is expressing and staying mindful of the emotional content being delivered as well as the literal meaning of the words. Staying patient and showing acceptance, not necessarily agreement, is important here.
- Speaking plainly and avoiding jargon. This doesn't necessarily come naturally to technical experts in a particular field.
- Framing language and messages to be more effective.

Of course, the mechanics of communication remains critical too. The Zurich/AFA 'Connecting with Clients' study<sup>[13]</sup> demonstrated the importance of matching the channel and frequency of communications to client preferences.

The payoff for getting your communications formula, right? According to the 'Connecting with Clients' research, advisers who communicated with their clients – across multiple channels – at least 8 times per year, achieved an average client satisfaction score of 9.5 (out of 10), compared to just 7.9 for those who only communicated twice per year.

And, as the Macquarie research proved, highly satisfied clients have a much higher propensity to stay with your practice over the long term, recommend you to others and invest more of their money with you.

## 2. Clients derive emotional benefits from the financial advice process

A key feature of the financial advice process is the identification of client financial and lifestyle goals.

Goals are central to a sense of psychological well-being, and are at the heart of financial advice. Whether it be building a dream home, retiring early, leaving a bequest or educating ones' children, goals are an expression of our future, and help set the purpose for life's journey as well as its direction. Without goals our lives lack structure and meaning.

Research<sup>[14]</sup> suggests that participating in activities aimed at developing goal setting and planning skills can increase subjective well-being and personal growth over time (in particular, life satisfaction), either by bringing about changes in self-perception and/or self-confidence, or by positive changes in one's circumstances. Planning for goals is also associated with a greater sense of control, and fulfilling plans underpins competence and capability.

With all this in mind, advisers should view each stage of the financial advice process from a different perspective. By appreciating the emotional benefits derived by clients from each stage, advisers can consider whether the experience they deliver clients at each stage – including the amount of time and resources invested in each stage – is optimising this wellbeing effect and, in turn, client satisfaction.

The annual client review takes on particularly elevated importance when viewed from this perspective.

### Annual Reviews – the most powerful touchpoint in the entire advice process?

While successfully achieving goals has a distinctly positive psychological effect, a positive mood state is also associated with the mere anticipation of future outcomes. In other words, just the perception of progress towards goals can provide a positive psychological boost, ahead of those goals being reached<sup>[15]</sup>. This suggests the review process has a vital psychological benefit and is thus very important to clients.

This sense of importance isn't necessarily appreciated by advisers, with Business Health research showing Australian advice clients continually rate the annual review as by far the worst-performing service area from the perspective of client satisfaction.<sup>16]</sup>

If you think your approach to annual client reviews could benefit from a refresh, consider the following improvement opportunities:

- Be diligent about scheduling review meetings; don't make excuses to postpone, and don't let your client make excuses either;
- Rather than structuring the reviews around investment performance and insurance premium changes, approach it as a conversation where you are catching up with someone close. Finding out what's been happening in their lives (marriage, divorce, health change, property purchase, new job) will have direct relevance to their state of mind, their circumstances, and their life goals, which is directly relevant to your advice and is likely to require some refinement of your recommended strategy;
- Frame the review as a celebration of the progress your client has made towards the goals your advice is based around (travel, education, financial independence);
- A review doesn't have to be done via a face to face meeting, in fact your client may actually prefer a phone call or video conference;
- Financial advice is an intangible, it's not something your client can hold and touch. The annual review is therefore not only a crucial opportunity to deepen your relationship, it's a chance to demonstrate value.

### Other practical retention tips

Beyond the big picture fundamentals of a formal approach to client retention, there are some practical steps you can also take, to make your strategy actionable.

### 1. Understand the retention metrics for your practice.

Using your CRM, watch for trends amongst exiting clients, in terms of age groups, product types or client segments (for example, 45-year old clients with trauma cover may find the age-based increases challenging). If you need to, prioritise retention efforts on those in the 'vulnerability window';

### 2. Consider seeking direct feedback from clients who leave

This can be through a formal survey or even a simple email or phone call;

### 3. Provide your clients with social proof

Testimonials from clients who are 'representative' can provide confidence to your broader customer base that they have made the right choice. Life insurance claims stories also help reinforce how real the risks of serious illness, death and disablement actually are

### 4. Encourage your clients to think of you as the first port of call

For financial and health matters, make yours the first number they call, reinforcing this through fridge magnets, calendars, wallet cards etc

### 5. Ensure your clients take something tangible away from each engagement

Whether it be a brochure, a report, a video, or even a piece of merchandise

### 6. Use resources from product providers to help you demonstrate value

Advisers can access a wealth of resources, ranging from printed and digital customer facing materials, to comprehensive customer engagement programs (for example, wellness programs like Zurich's LiveWell);

### 7. Utilise technology to both automate and improve aspects of your client engagement

Technology can make both the creation and dissemination of broad-based customer communications more efficient. Your CRM can also alert you to significant milestones such as birthdays and anniversaries, for more personalised interactions. And, if there is a positive to come from CoVid 19, it is an increased willingness of clients to engage via phone or video;

## Conclusion

As we have seen above, the financial dynamics underpinning client retention are extremely powerful, with a global research showing a 5% improvement in retention can lead to increased profitability of 25% or more. Despite this, many businesses, including financial advice practices, continue to prioritise new client acquisition over any formal approach to retaining existing clients. Whilst there is a clear vulnerability window between years four and nine when client retention spikes, the good news is that the main reasons for client attrition are communication related, and thus well within the adviser's control. Getting the communication mix right – in terms of channel and frequency – and understanding the psychological benefits that clients derive from each stage of the advice process will leave advisers well equipped to improve their retention rates into the industry best practice levels of 94 to 98%, thus significantly improving the sustainability of their practice.

*So, the next time you are deciding whether to reply to your client's email now or later, just remember your decision could be worth \$71,000 or more.*



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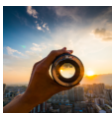
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