# Economics OF LOYALTY 2011

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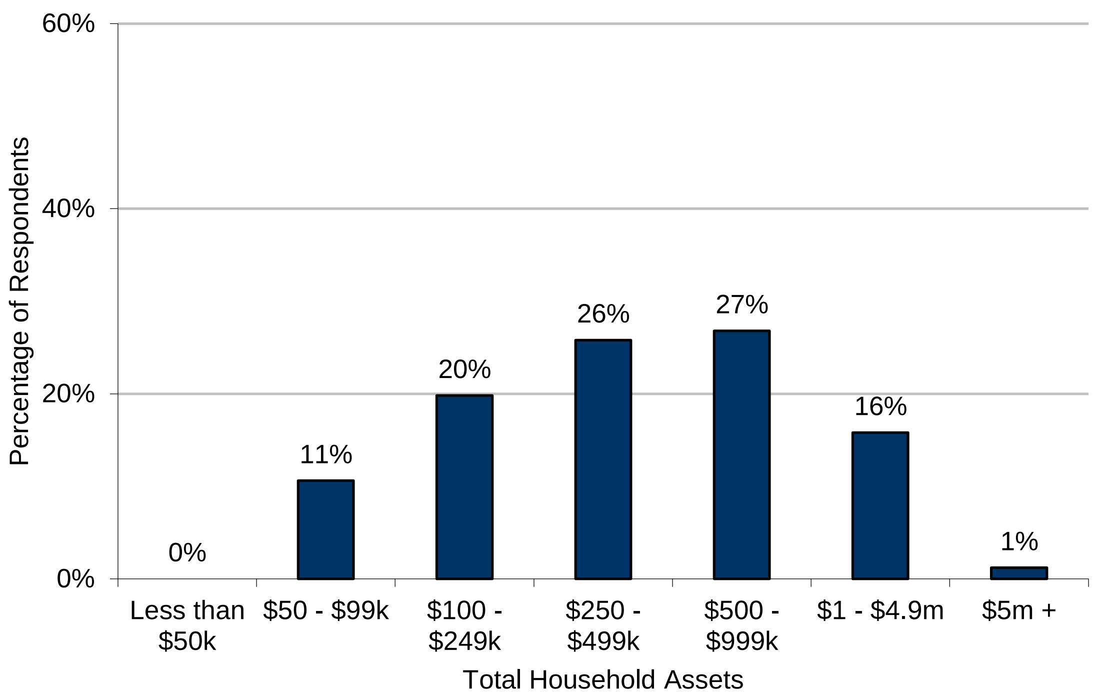
# The Economics of Loyalty.

- The Economics of Loyalty, a survey conducted in Canada, the US and the UK, was designed to define and measure engagement and to help advisors actively use that information in their businesses.
- The study was sponsored by Brandes Investment Partners and involved input from more than 1,000 Canadian investors, all of whom work with a financial advisor and meet specific wealth profiles.




Q. What is the total value of your investable assets, excluding your home or employer pension plans ? (Include mutual funds, stocks, bonds, GICs, RRSPs etc.)

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Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Key Findings

- The traditional metrics by which we measure the quality of the client experience, such as satisfaction and loyalty are ineffective because they do not reflect the total client relationship and are not connected to growth.
- The Economics of Loyalty research re-defined the way in which we measure great advisor-client relationships by identifying four core clusters of clients: disgruntled, complacent, content and engaged.
- Client engagement is the new standard. By examining client relationships through this lens, firms can positively impact growth and share of wallet while reducing attrition and brand risk.
- Engaged clients are our deepest and most profitable client relationships. They:
  - are among the most satisfied and loyal clients
  - place a high value on advice relative to the fees they pay
  - put the advisor in the role of ‘trusted advisor’; co-ordinating across other professionals
  - use their advisors on a multi-generational basis
  - provide almost all referrals made across the industry
- Engaged client relationships are differentiated on the basis of several key factors, defined by connection, leadership and partnership. Engaged clients have broader and deeper relationships with their advisors, rely on their advisors for guidance and are invited to provide their input on the service provided.
- The study examines both the drivers of engagement and the way in which advisors can leverage engagement to increase referrals.  Traditional approaches to generating referrals have not worked however clients provide a perspective on what will work.

# Connecting Quality of Relationships and Growth

- Overall, clients are satisfied with their advisory relationship, are loyal and are comfortable providing referrals.
- Despite those positive results, only 20 percent of clients provided a referral, a disconnect many advisors have difficulty reconciling.

- 66% of clients gave their advisor an average satisfaction rating of 8/10 or higher
- 84% of clients are somewhat or extremely likely to continue working with their advisor
- 69% of clients are comfortable providing a referral

20% of clients provided a referral

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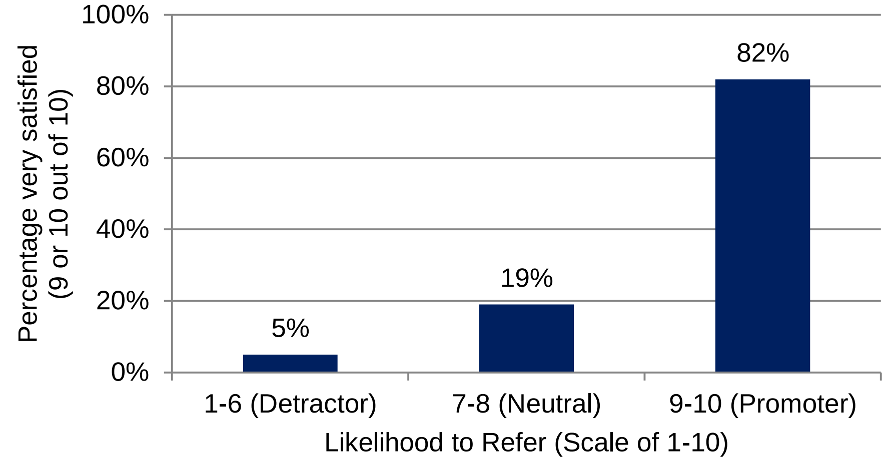
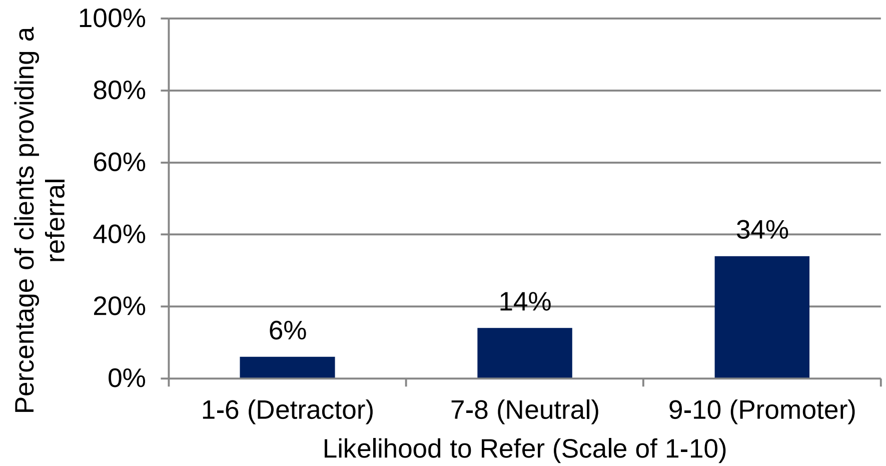
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Comfort referring does not drive action

- The study examined the connection between satisfaction, loyalty and referrals.
- Satisfaction is highly correlated with the extent to which a client is comfortable providing a referral.
- The top chart shows the connection between comfort referring (using Net Promoter Score* categories) and satisfaction. The two are very closely aligned.
- The assumption is, therefore, that by focusing on the drivers of satisfaction, advisors will drive growth through referrals.
- This is not the case. Satisfaction is linked to comfort referring, but not necessarily to referral activity. The bottom chart shows the percentage of clients that actually referred relative to those who are comfortable referring.




* Net Promoter Score is a commonly used method to assess if clients feel they will refer based on a scale of 1-10.

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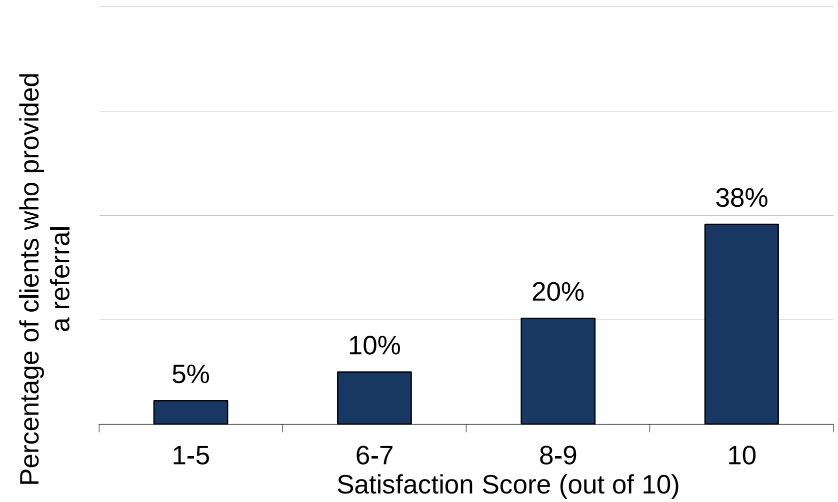
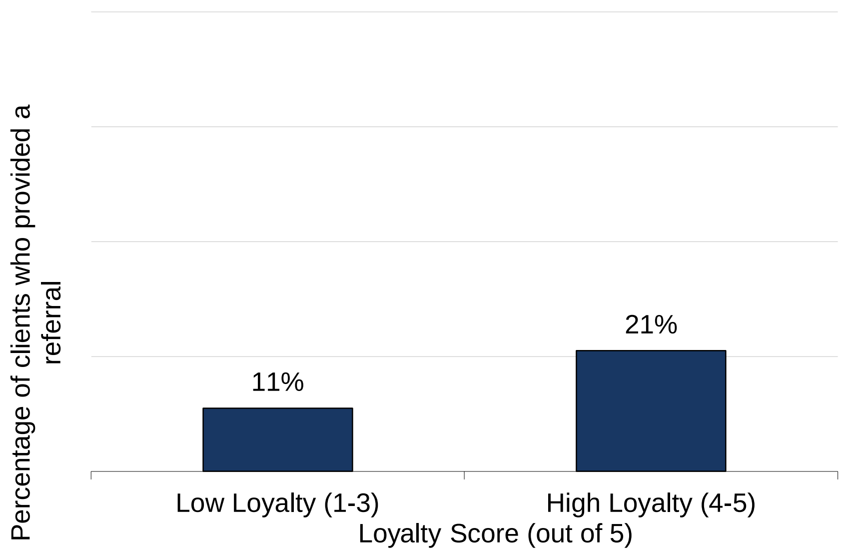
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Satisfaction and loyalty are not enough

- In addition to seeing a disconnect between being comfortable referring and actually doing so, we also find a disconnect between satisfaction or loyalty and providing referrals.
- The top chart shows that fewer than half of the most satisfied clients provided a referral.
- The bottom chart shows there is no real connection between loyalty and providing a referral.
- While satisfaction and loyalty are important, they are clearly not enough when it comes to driving growth in a business.




Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# The flipside of loyalty

- Part of the reason that loyalty is only loosely connected to referral activity is that many clients, who are neutral or dissatisfied, stay.
- Nineteen percent of clients say they have thought about changing advisors.
- The table shows that among those who have considered switching, the majority don't think there is a good alternative and just over a quarter aren't sure how to find a better advisor.
- While important, loyalty is not always connected with satisfaction; some clients feel 'stuck'.

| | Percentage of respondents who have considered leaving |
|---|---|
| I don't know that I would do better with a different advisor. | 64% |
| I don't know how I would find a better advisor. | 27% |
| My advisor understands me well and that would be difficult to replicate. | 15% |
| I have other family members who also use this advisor | 8% |
| I've already tried switching advisors, but found the transfer process too complicated. | 8% |
| I like my advisor, it's the company he or she works for that I don't like. | 5% |
| My advisor is connected to my other professional relationship (e.g. my accountant) | 3% |

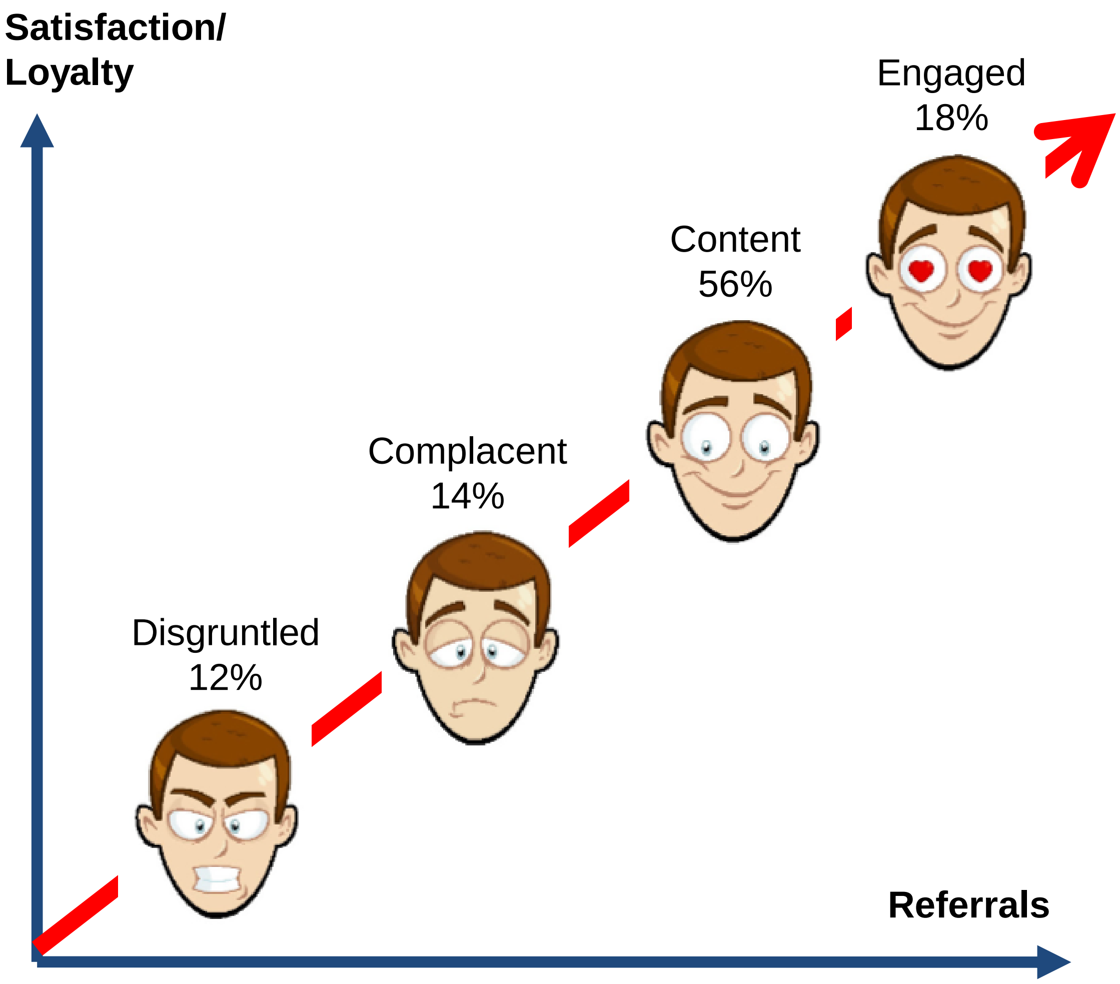
Q. Why have you not switched advisors yet (if thought of leaving)?



Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# A higher standard

- In order to provide advisors with a roadmap to building meaningful relationships, the research segmented clients based on satisfaction, loyalty and referral activity.
- Those clients who provided the highest ratings in all three categories are considered engaged.
- Engaged clients set the bar for advisors. They are the most satisfied, the most loyal and are also actively helping to drive growth.




Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

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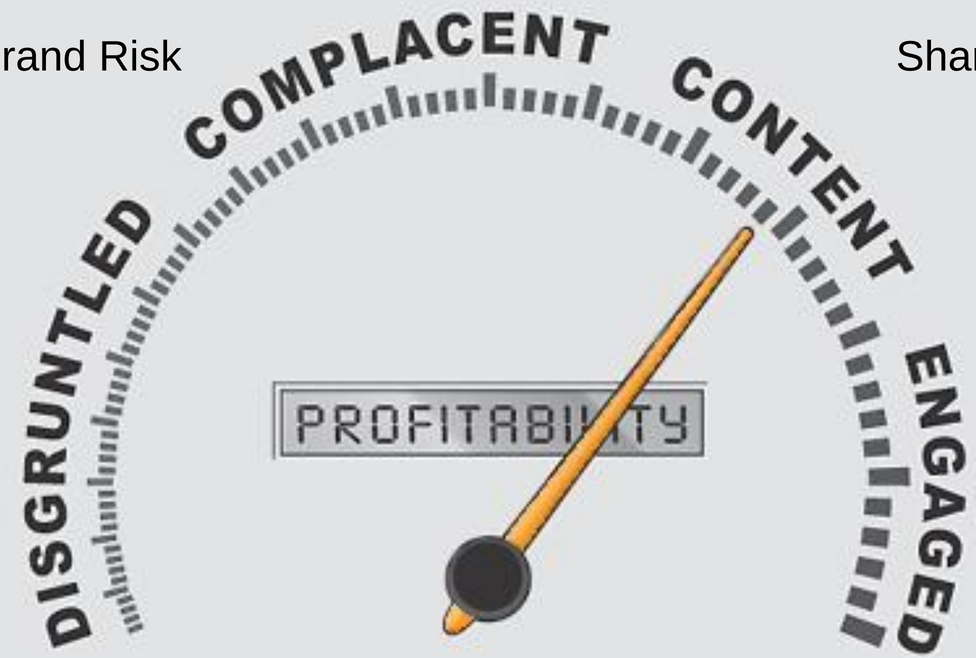
# The impact: Risk turns to opportunity moving from Disgruntled to Engaged


Brand Risk

Share of Wallet

Attrition




Referrals
Multi-generational planning
Trusted advisor

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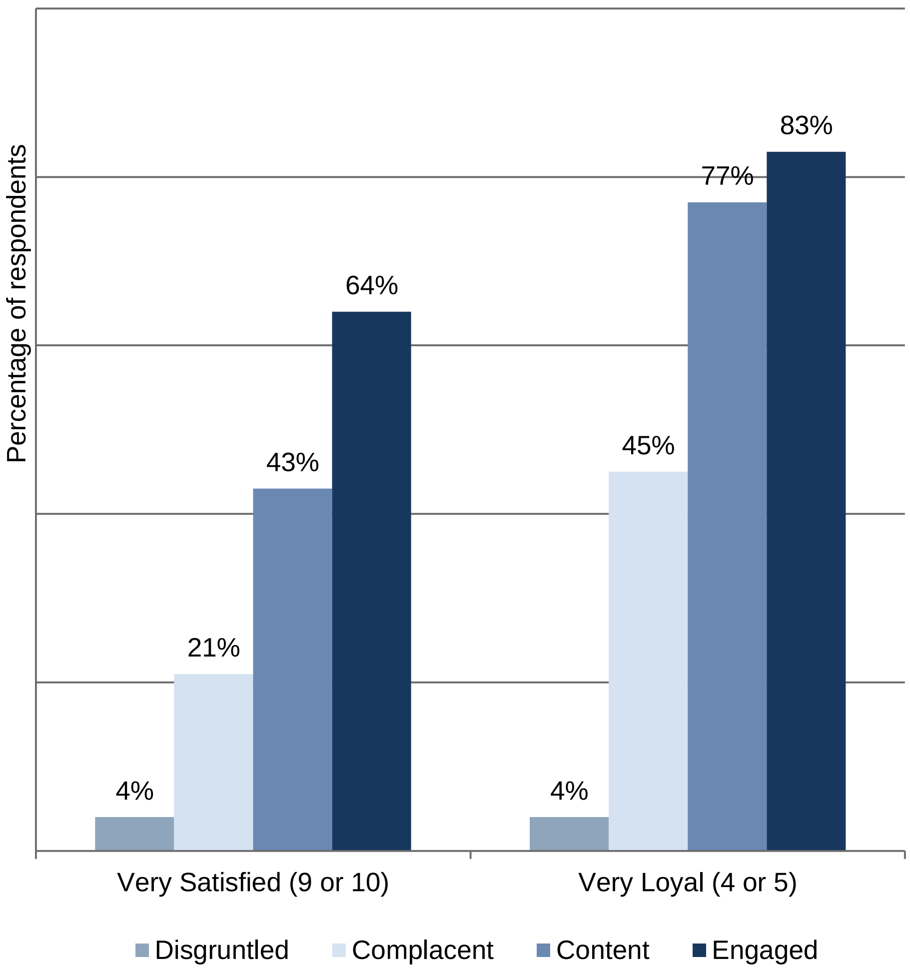
# The impact of engagement: A deeper relationship

- Engaged clients are among the most satisfied and loyal clients.
- By examining what is unique about their client experience, we can identify the core drivers of engagement and help advisors to prioritize those activities.

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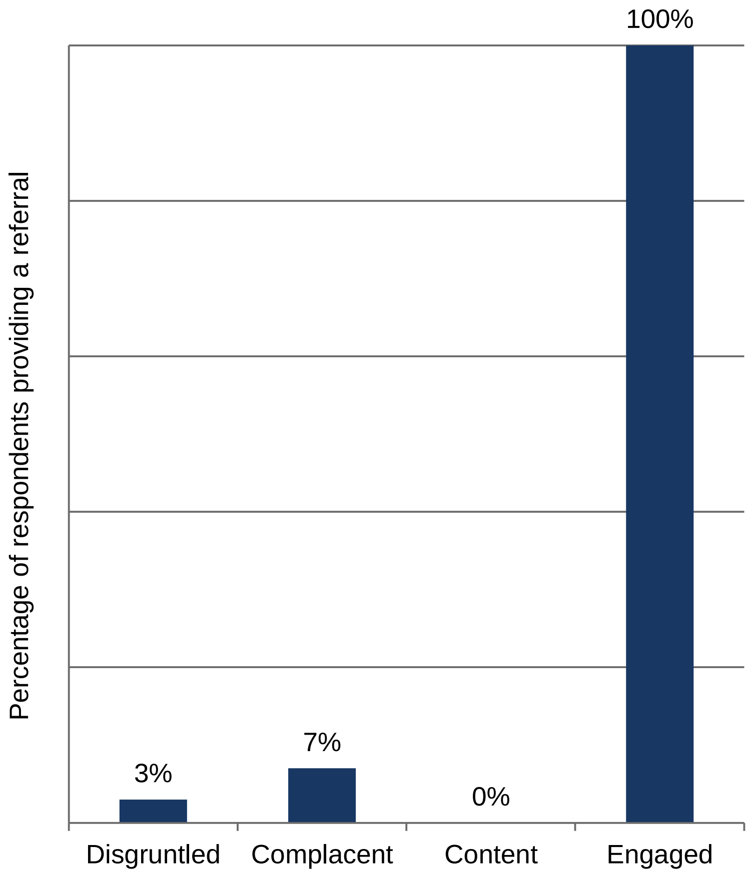
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# The impact of engagement: Growth

- Engaged clients provide virtually all referrals to advisors.
- With Engaged clients, there is an alignment between comfort referring and action that is not seen in any other segment.
- A third of Engaged clients provided one referral, 35 percent provided two referrals, 22 percent provided three referrals and 10 percent provided four or more referrals.




Q. Have you provided a referral to your financial advisor in the last 12 months?

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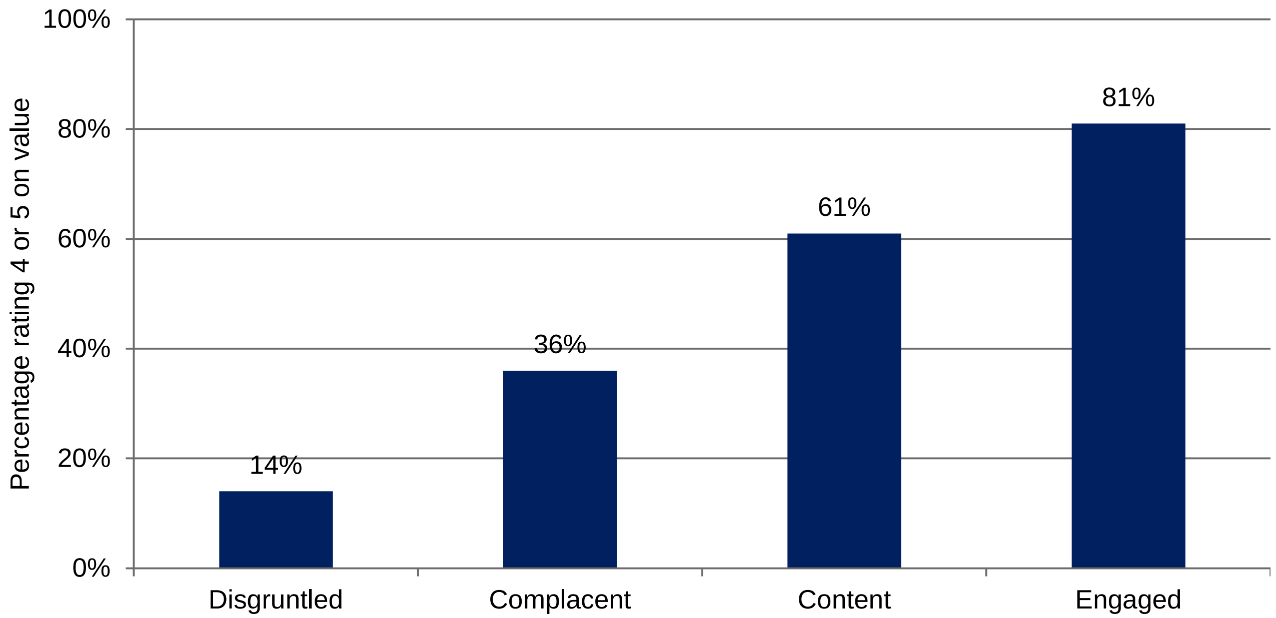
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# The impact of engagement: Recognize real value

- Engaged clients recognize the value delivered by their advisor, relative to fees.
- Clients who fully appreciate value are less likely to be fee sensitive.



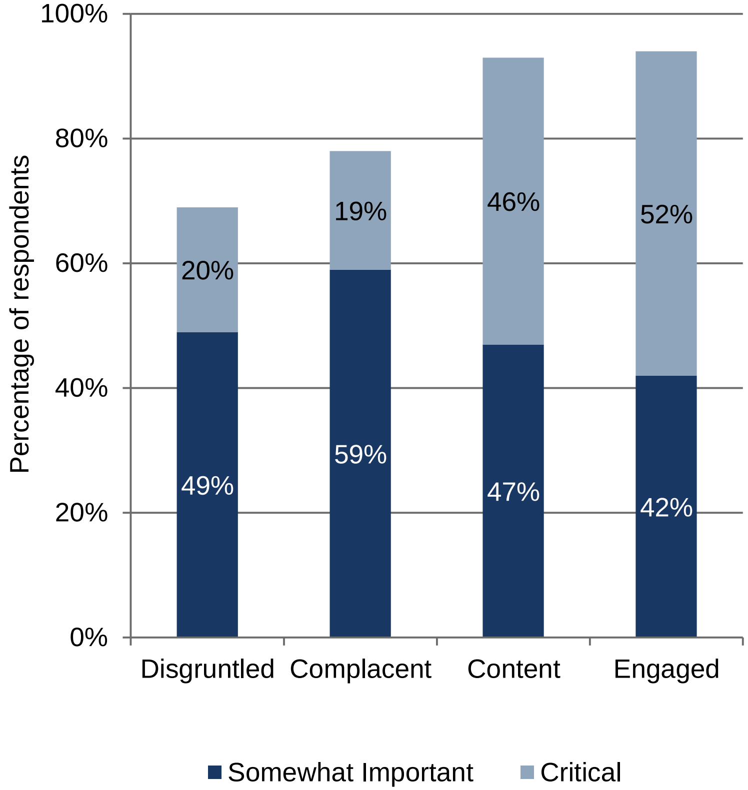

Q. How would you describe the value that you receive from your advisor, relative to the fees paid?
(a 5-point scale where 1 is completely disagree and 5 is completely agree)



Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Advice matters… across the board

- While we would expect Engaged clients to recognize the value of advice, the reality is that almost all clients say that advice matters.
- The chart shows the percentage of clients who say that advice is somewhat important or critical in reaching their most important financial goals.
- The value placed on advice highlights the extraordinary opportunity to build more engaged and meaningful relationships.




Q. Thinking about your most important financial goal, how important do you consider the advice you receive from your advisor in reaching that goal?

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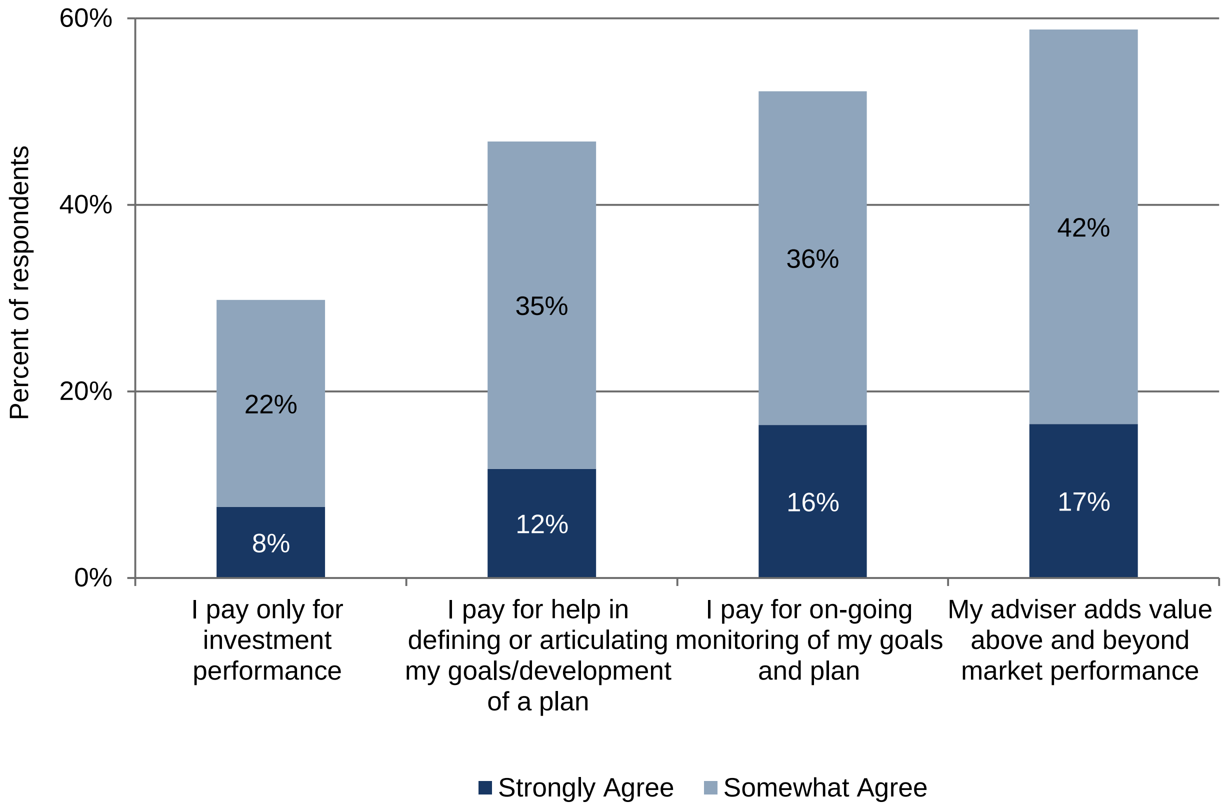
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Value goes beyond investment performance

- Fewer than a third of clients say they pay only for investment performance. Nearly 60 percent of clients say their advisor adds value above and beyond market performance.
- Value is tied to support in defining and monitoring financial goals more often than investment performance.




Q. To what extent to you agree or disagree with the following statements?
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

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# Driving engagement

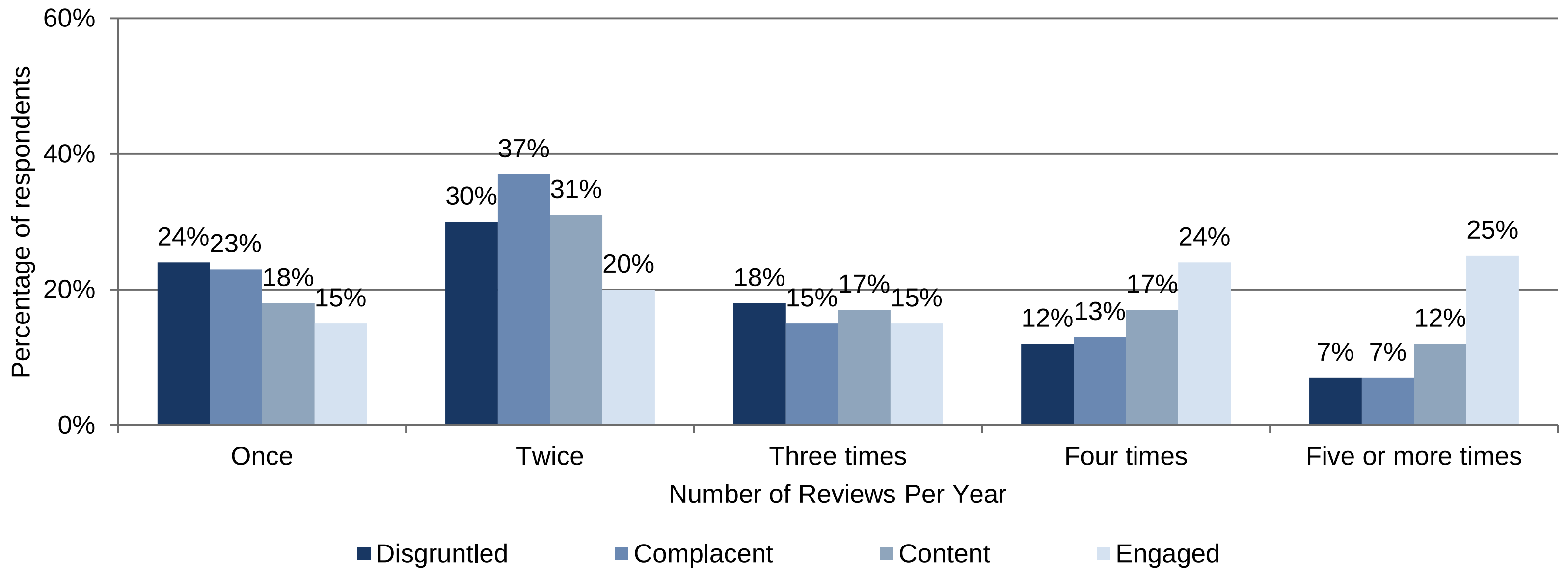
- Engaged client relationships are differentiated on the basis of several key factors, defined by connection, leadership and partnership.
- These categories define the ways in which engaged clients differ from all other clients, including those who are Content.
- Engaged clients have broader and deeper relationships with their advisors, rely on their advisors for guidance and are invited to provide their input on the service provided.




Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Driving engagement: client contact

- On average, Engaged clients both expect and receive more plan/portfolio reviews in a 12-month period.
- Content and Engaged clients have similar asset profiles so the difference in contact is not tied to the size of the portfolio.
- The quality of the Engaged relationship is different; they differ dramatically from other clients as it relates to helping clients with the ups and downs of the market, defining long-term goals and creating a clear plan for the future.




Q. Thinking about the last 12 months only, how often did you actually meet with your advisor (either face-to-face or by telephone) to review your financial plan or portfolio?

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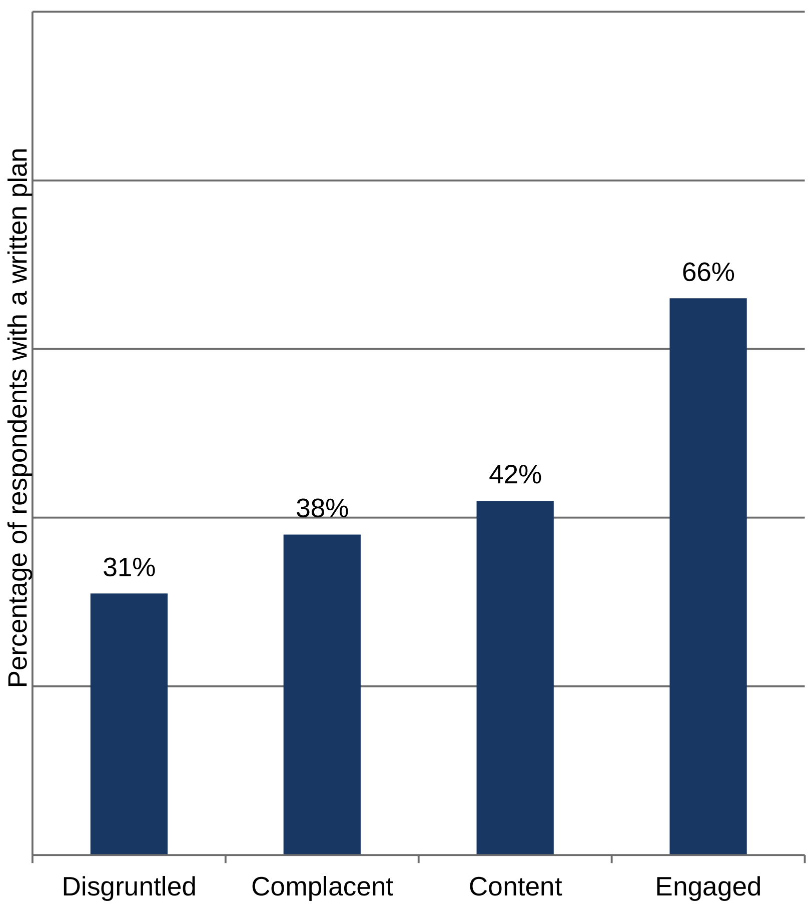
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Driving engagement and the scope of the relationship: Financial planning

- Engaged clients are much more likely to have a written financial plan.
- The scope of the relationship is impacted by a planning process that touches all aspects of a client's financial life.
- 90 percent of Engaged clients say the plan is somewhat important or critical in helping them reach their financial goals.




Q. Do you have a written financial plan which may include insurance, tax planning, retirement planning, estate planning, or some combination of these items?

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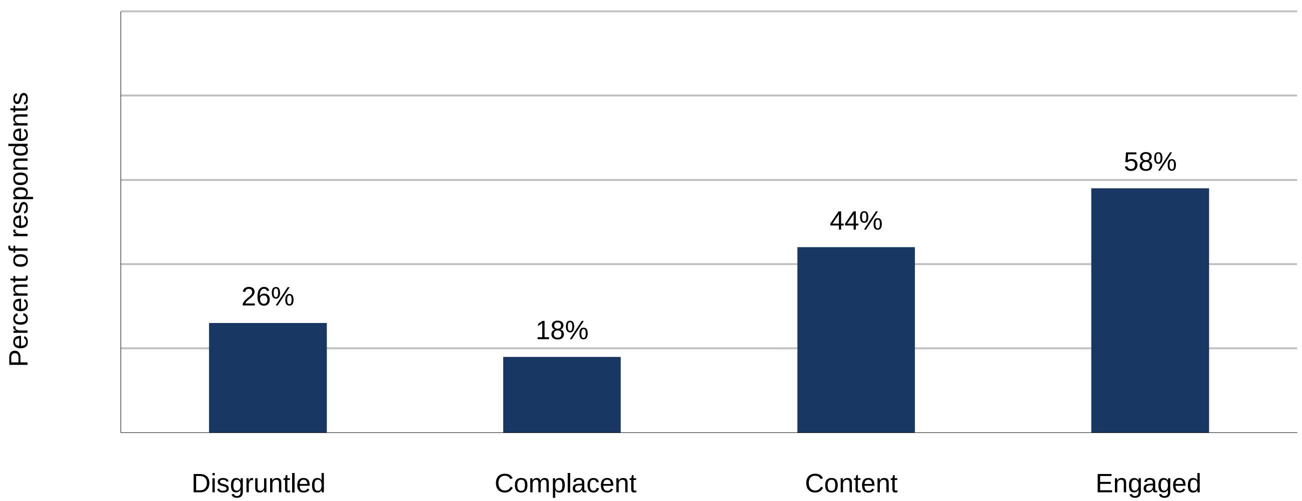
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Driving engagement and the scope of the relationship: The quarterback

- Engaged clients are more likely to rely on their advisor to play a central role in their financial lives.
- Among those clients who indicated they worked with other professionals (e.g. an accountant or lawyer), 58 percent of Engaged clients said their financial advisor played a central role in co-ordinating across those advisors.

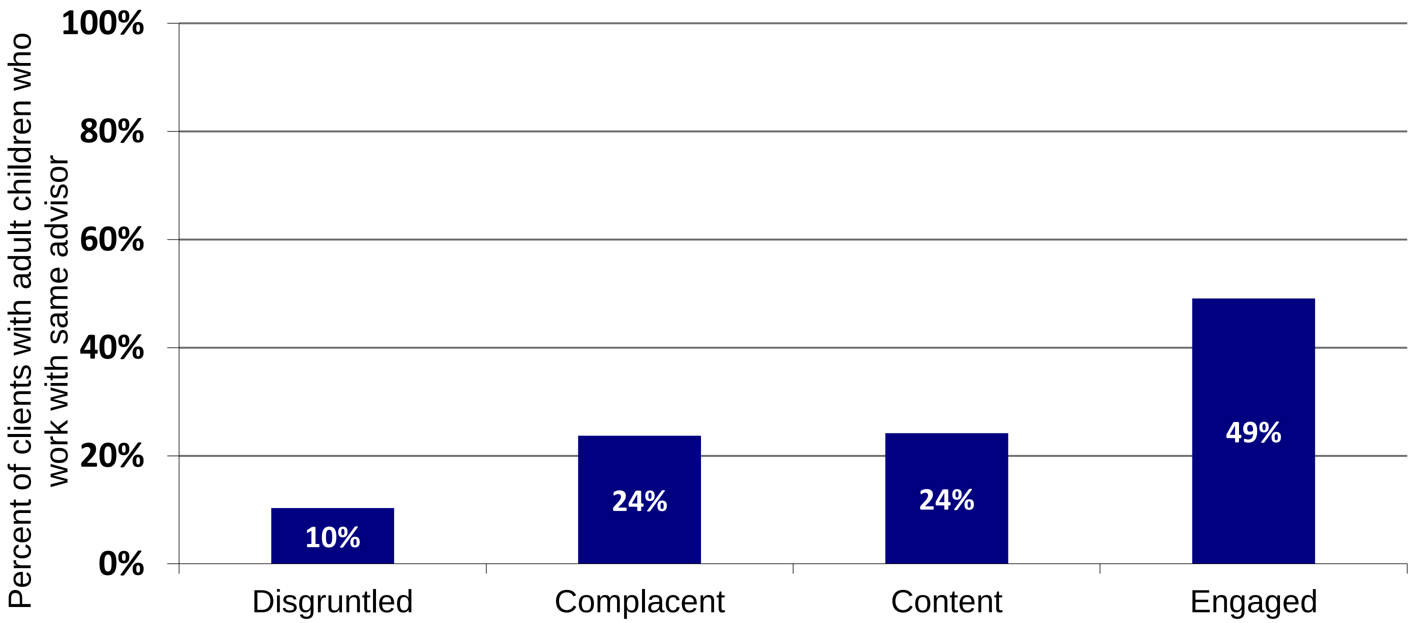



Q. Which, if any, of the following best describes the role that your **financial** advisor plays relative to other professional advisors with whom you work (e.g. accountant or lawyer): My advisor plays a central role in my financial life, coordinating or working with my other professional advisors as and when required

Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Driving engagement and the scope of the relationship: Multi-generational planning

- Engaged clients have relationships with their advisors that span generations.
- Engaged clients with adult children are considerably more likely to have an advisor who also works with their children.




Q. Does your primary financial advisor work with other immediate family members other than yourself and/or your spouse? Yes, with children n=clients with adult children

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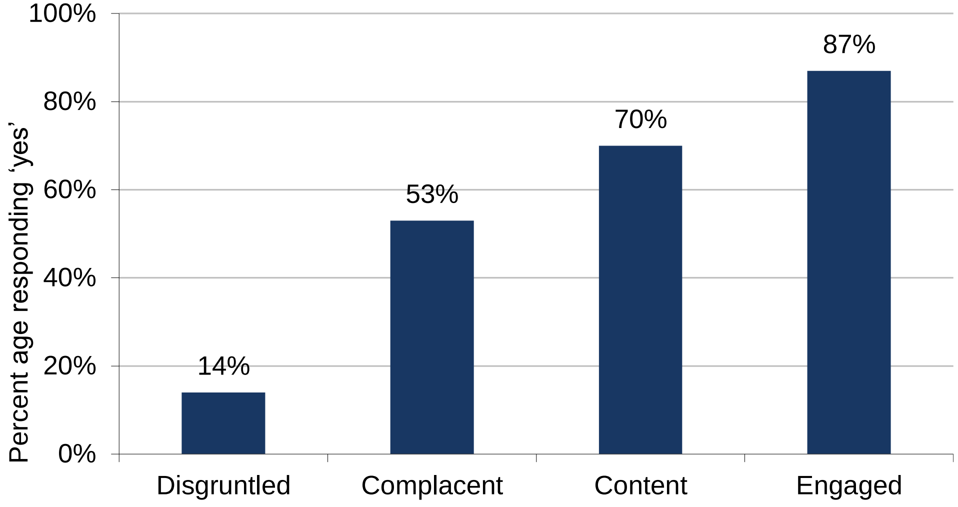
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Driving engagement: Leadership

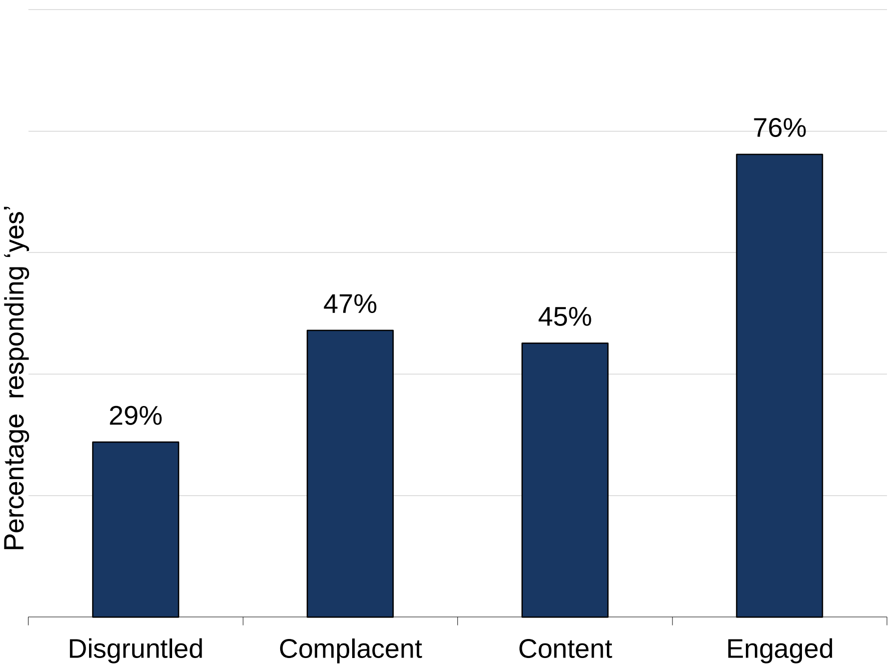
- Leadership, particularly during turbulent markets, plays an important role in engagement.
- Nearly 90% of Engaged clients see their advisor as a strong leader.
- Leadership is most often described as:
  - Helping keep a plan on track despite turbulence
  - Keeping clients focused on the long term
  - Actively reviewing plans in the face of a market downturn




Q. Do you consider your advisor a strong leader?

# Driving engagement: Partnership

- Partnership is defined as giving clients a voice and inviting their input through feedback.
- Engaged clients are dramatically more likely to have been asked for their input on the service being provided.



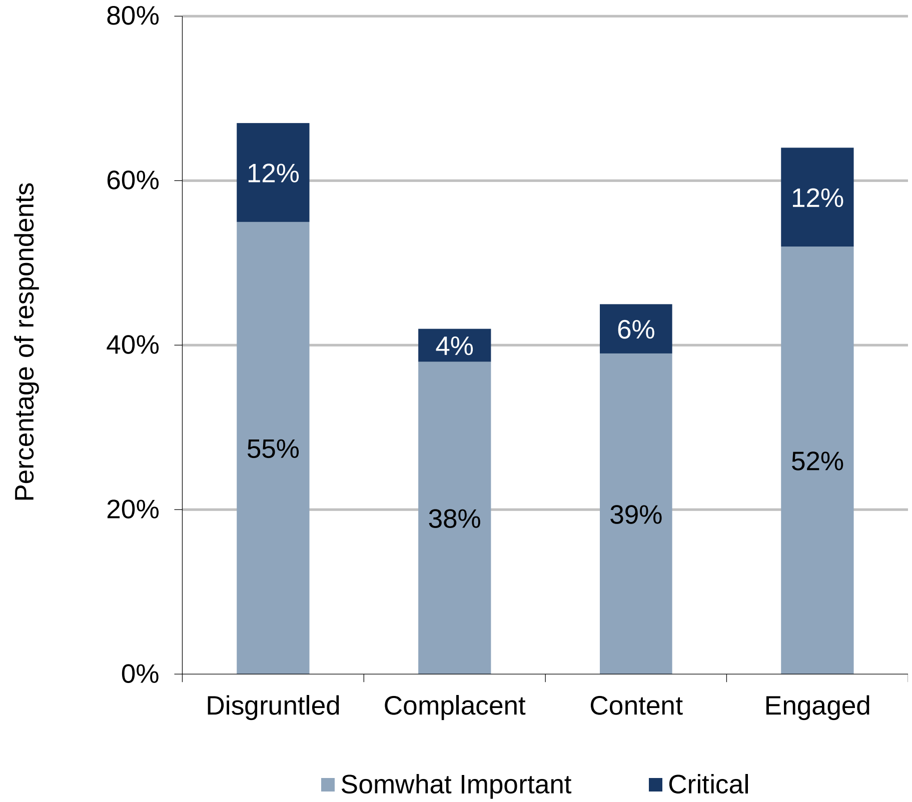

Q. Has your financial advisor ever asked you for feedback on the service that he or she provides?



Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# All clients want a say

- While Engaged clients are more likely to have been asked for feedback, Disgruntled clients are looking for the opportunity.
- Nearly 70 percent of Disgruntled clients feel it is important to be given the opportunity to provide feedback, no doubt based on their service experience.
- Setting the most dissatisfied clients aside, Engaged clients stand out, relative to Content or Complacent in the importance they place on feedback.



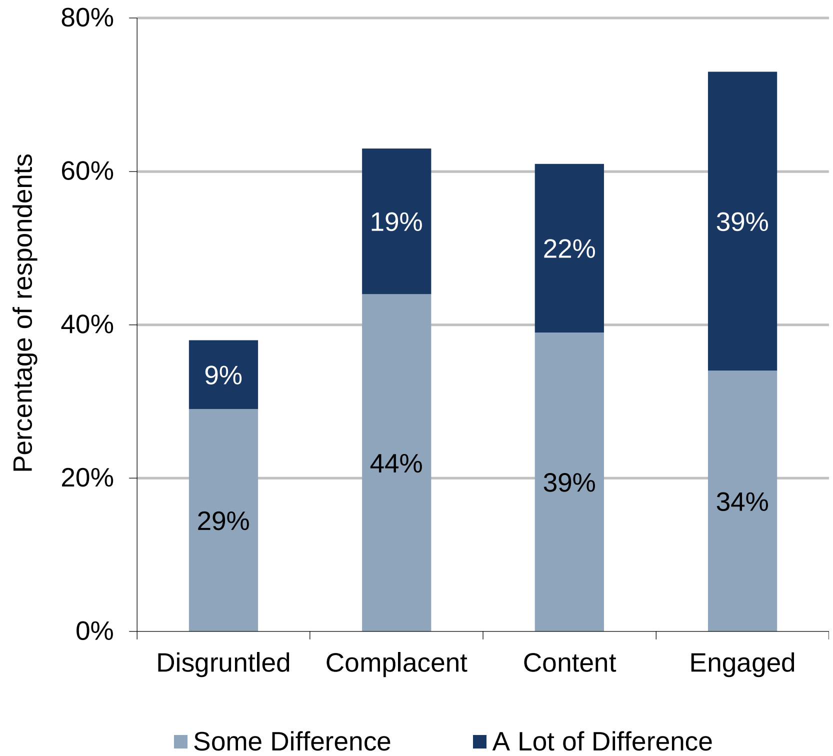

Q. How important is it to you that your advisor asks you for feedback/input on the service that he or she provides?



Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Feedback makes a difference

- When asked if feedback makes a difference, Engaged clients are optimistic that they are being heard and Disgruntled clients do not believe they can impact the relationship.
- Engagement is not only linked to the activity of asking for the feedback, but to the extent that advisors listen and respond to that feedback.




Q. How would you describe the difference that providing that feedback made in helping your advisor shape the service that he or she delivers?

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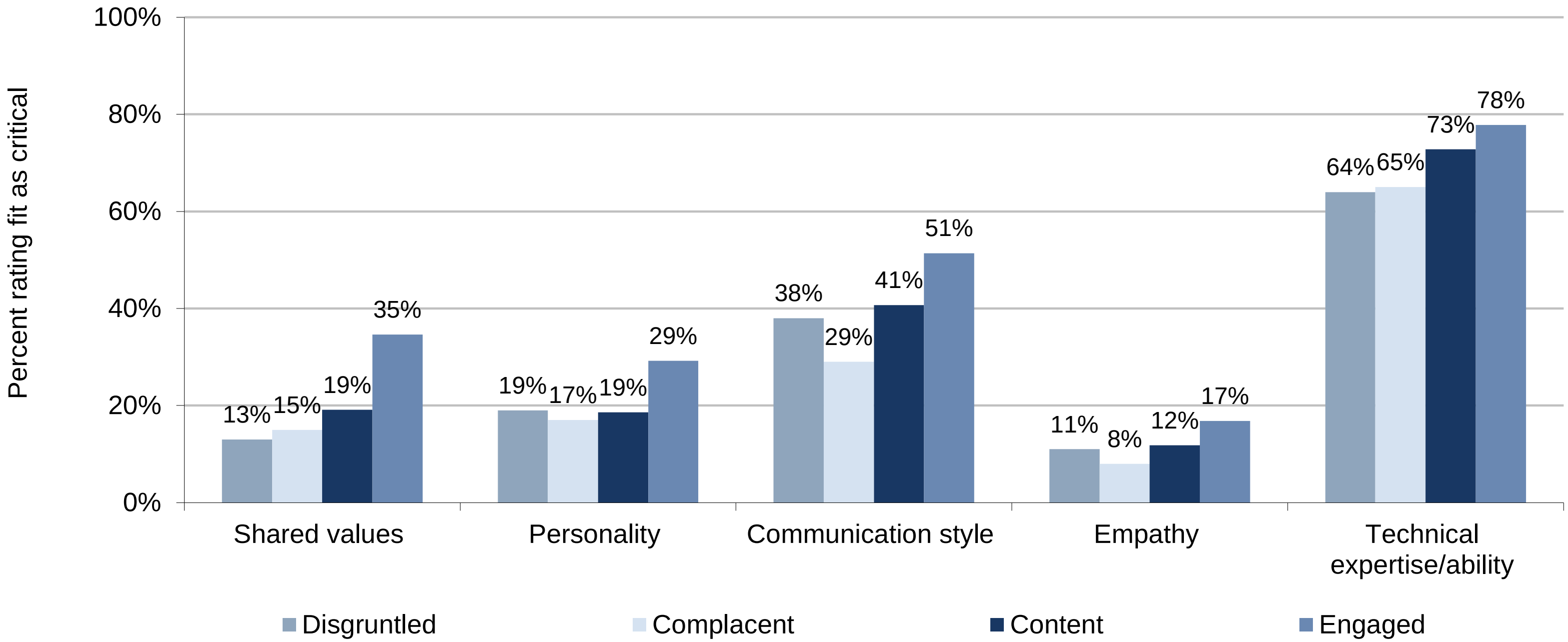
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Finding the right fit

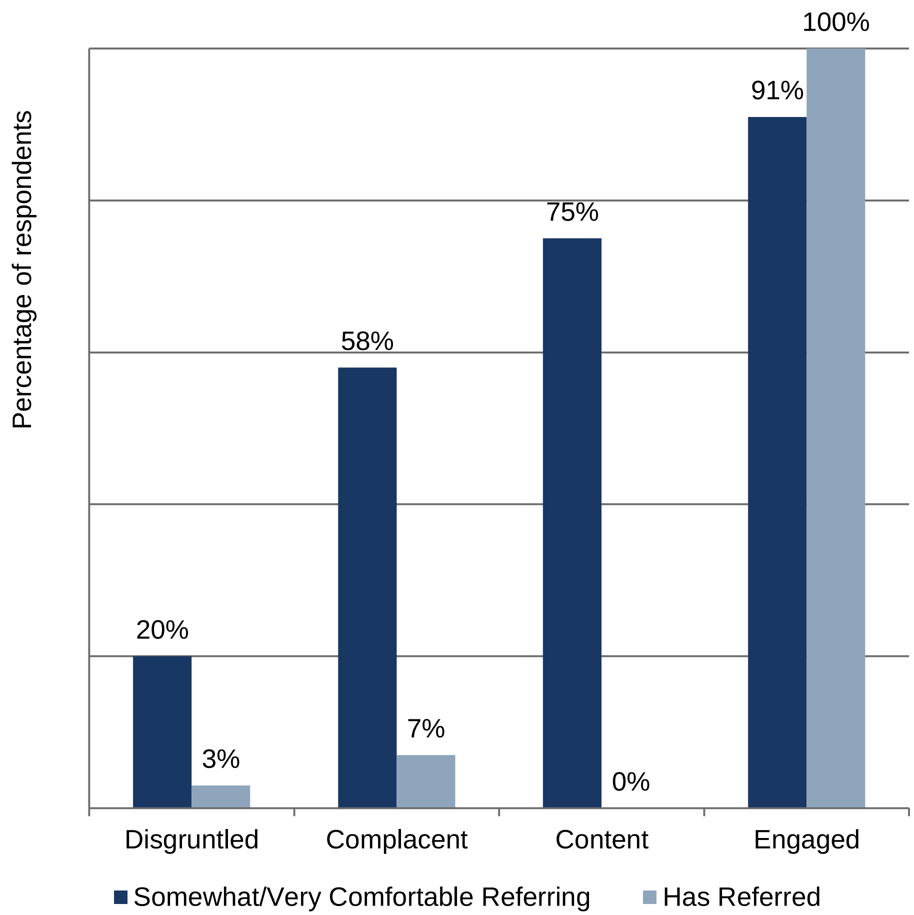
- It can be argued that engagement cannot be achieved without the right foundation.
- While the majority of clients demand fit on technical expertise and ability, Engaged clients are more likely to seek a fit on values, personality and communication style.




Q. How important to a successful relationship with your advisor, is finding a close or perfect match on the following? (a 5-point scale where 1 is not at all important and 5 is critical)

# Leveraging client engagement

- The connection between engagement and growth is based on the depth and quality of client relationships.
- The research shows clearly, however, that advisors can impact the referral equation through effective positioning.
- Traditional approaches to referrals may not work because they are not focused on the clients' fundamental motivation to refer, which is to help their friends, not their advisor.

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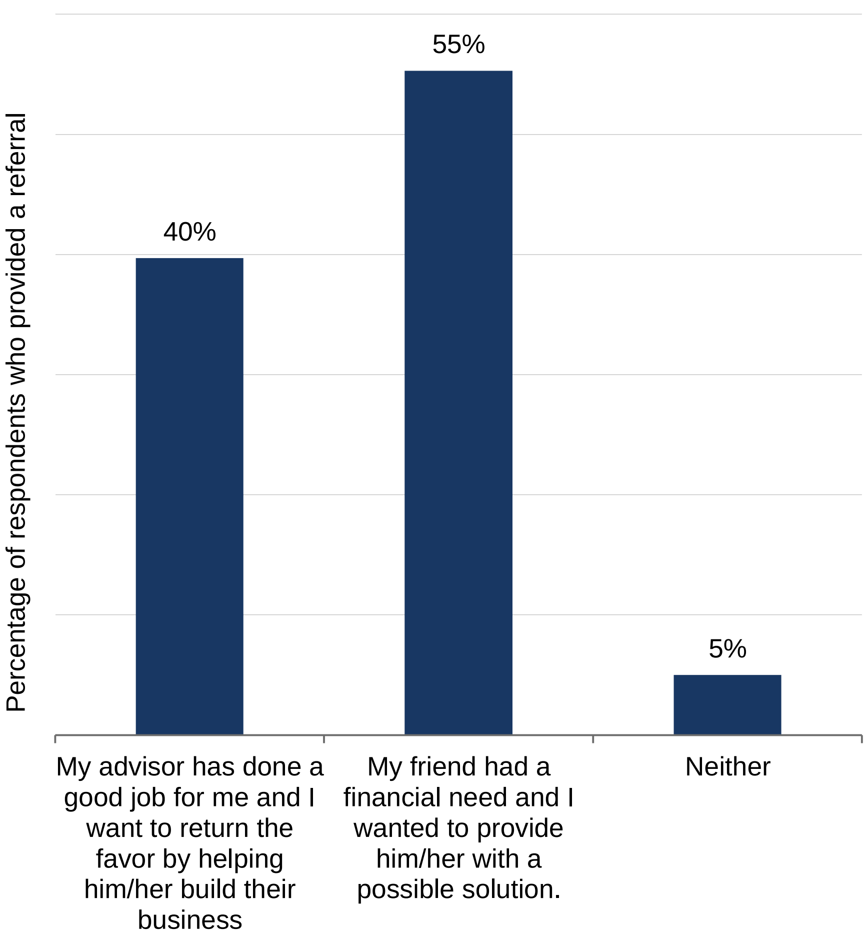
Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Understanding motivation to refer

- According to the majority of clients, the fundamental motivation to refer is to help a friend or family member.
- This finding is contrary to the typical approaches taught to advisors, which focus on asking clients to help build the business in return for receiving outstanding service.
- While clients may be motivated to help, there is no evidence that motivation is strongly tied to action.



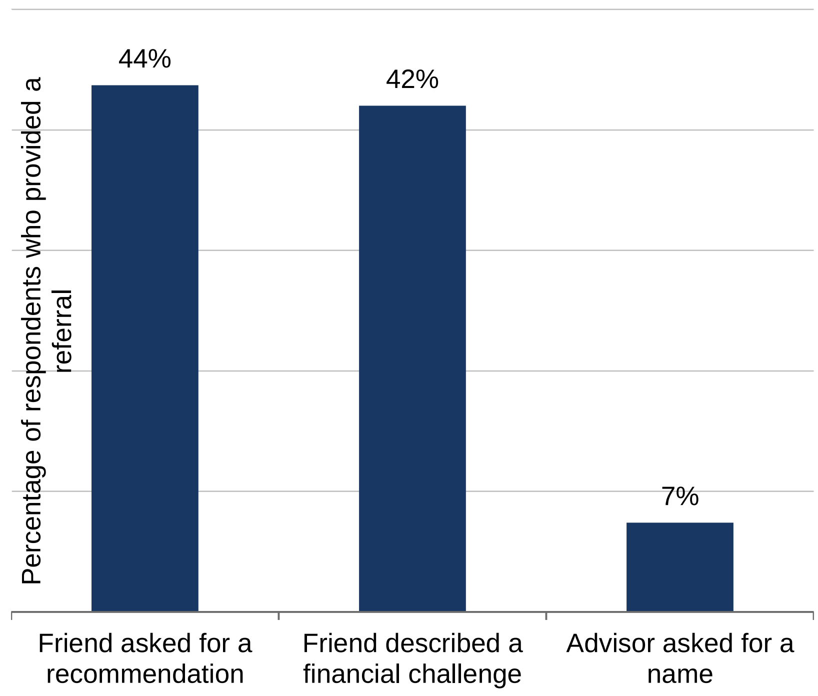

Q: Which of the following best describes the motivation behind providing a referral to your advisor.



Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Triggering action on referrals

- In order to understand how to impact referrals, advisors must move beyond understanding motivation and examine what triggers action.
- In only seven percent of cases did clients say that action was triggered because they were asked by their advisor for the name of a friend.
- While the highest number of clients were simply asked for the name of an advisor, the most important number is the 42 percent of clients who acted in order to provide a solution when a friend was describing a financial challenge.
- The results suggest that advisors should spend time helping clients to spot a need for advice to align with their desire to help friends and family.




Q: What were the circumstances of providing the last referral?

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Source: *The Economics of Loyalty Canada*, Advisor Impact, 2011.

# Implications for advisors

- The Economics of Loyalty paints a picture of both the risk and opportunity for firms and for advisors.
- The data clearly show that the needs of clients and the needs of advisors intersect with engagement, where clients are receiving an outstanding level of service and advisors are benefitting through referrals.
- When advisors can understand and embrace the drivers of engagement they can differentiate themselves, build deeper relationships and tap the latent potential in their book of business.
- Action is tied to the core drivers of engagement: connect, lead and partner. The latter provides the feedback required to execute on the first two.
- Advisor Impact will be releasing a series of white papers designed to help advisors take action and build more engaged relationships.
- For more information, contact:

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