MJ Lilly Associates
Strategic Communications

Differentiation: Creating Clarity and Opportunity for Wealth Managers

At the *Family Wealth Report* Summit last November, both clients and advisors voiced their frustration about the overarching confusion around existing wealth management business models serving wealthy families today.

As Joe Calabrese, National Head of Investments at Key Private Bank, said, “The biggest issue for clients is that most firms in the marketplace present themselves in the same way, even though there are material differences in their approach.”

There is a clear solution to this dilemma: focus on differentiation.

No doubt, differentiation is a common problem across the financial services industry. However, it is a particular conundrum in the wealth management arena, where a variety of firms operating in the space – from major brokerage houses and private banking operations to mid-size advisory firms and small boutiques – create some basis for competitive comparison but appear to offer similar capabilities.

This is further complicated by the firms marketing themselves in nearly replicate ways, despite inherent differences in their models, and then delivered in a one-size fits all approach. Marketing to the HNW community is typically monolithic, failing to drill down and address the specific needs of UHNW individuals and family office clients.

Since the current wealth management landscape makes it nearly impossible to discern one firm from another or the differences in their offerings, what does it mean for wealth managers to employ a differentiating strategy? Here are a few suggestions:

Bolder and more precise communications. Today, most wealth managers promote their services using the same homogenized language and tone with little to no real detail. Since many services are similar in nature, differentiation must be communicated through the finer points. This means using words that deliver emotional resonance about a firm’s culture, talent, and commitment to customer service while offering greater specifics on all capabilities. For example, every firm says they are a “trusted advisor,” but that has become vapid. What can be said that is more precise and pointed?

It also means delving into the details that define and distinguish the various models that exist. For example, there are wealth management firms that offer fully-integrated approaches, while others specialize only in investing, partnering with other firms to offer the full gamut of financial planning and trust and estate services. There are still others that operate as true Outsourced Chief Investment Officers (OCIOs) – potentially a preferred structure for family offices – but the specific services of this model vary from firm to firm and need to be carefully delineated. Overall, communications should not only detail the tenets of the model utilized but also explain with abundant clarity how the model can deliver clear benefits to the client.

Expanding transparency across key business and marketing issues. After the 2008 financial crisis and in particular, after the well-publicized Madoff scandal, it became mandatory for investment managers to provide transparency into their operations and demonstrate how financial results are achieved.

Now may be the time to take transparency one step further and make it standard for all phases of a wealth manager's business and process. This may seem like a painful, far-too-open approach, but it is a surefire way to differentiate and create the unbiased review of a firm's model that clients are clamoring for.

It also sets the stage for meaningful dialogue in explaining to clients who they are working with, what they can expect, and what the related costs will be. This includes:

- *Clear explanations on investment strategies and what they actually mean and deliver.* Wealth managers need to invest in developing communications that explain all facets of the investing paradigm with greater detail and specificity. This might include greater education on passive vs. active management strategies deployed, or heightened detail on the philosophy and process behind traditional equity and fixed income security selection. Clients are also anxious to understand the defensive strategies managers are prepared to implement in the face of changing market dynamics. It also means providing honest information on alternative investing – what types of options are available, what is required to access select managers, and how the performance of these managers compares to that of their counterparts. Access to the top alternative investors is a major consideration among UNHW families, and as a result, this is a serious area of differentiation wealth managers must carefully consider.

- *Product distribution incentives*. Based on the wealth management firm, there may be any number of product incentives that become part of the provider/client relationship. As a result, it may be time for the wealth management industry to adopt a pro-forma checklist of product distribution scenarios as a basis for comparison among firms.

  For example, wealth managers working at large banking and brokerage firms are often in situations where their organizations issue a direct or oblique form of financial incentive to "push" select products and services. Other times, these same wealth managers may choose to access select products and services of their parent organization, rather than pursue potentially more favorable options at competitive firms. Independent managers may also have product incentives available to them. Some managers have established preferential financial arrangements with select firms while others may offer specialized services within their own coffers; for example, a proprietary trading platform, for which all transaction-related costs and fees are embedded in the management fee.

  Regardless of the scenario, UHNW clients should be informed of all of these financial incentives. These incentives should be communicated as an integral component of the fiduciary responsibility of the wealth manager, and if some sort of remuneration takes place, arguably, this should be passed on to the client as well. Above all, transparency on product distribution incentives is an act of good faith, helping to ensure clients that their manager is working in their best interests.

- *Fee disclosure:* There is a lot of confusion over fees – what the different management fee options may be, what's included in those fees, what additional costs and fees may be incurred, and some clarity on what these fees are used for. Ensuring the integrity of all costs charged to clients is paramount. There are situations where wealth managers have lost clients because they were found to be "double dipping" in fees – charging agreed-upon management fees, as well as trading costs. In the small UHNW world, this is the type of malfeasance that can forever tarnish a wealth manager's reputation.

Client segmentation strategies and research. The road to differentiation all begins with what is arguably Marketing 101 – client segmentation strategies and research. Client segmentation is the skeletal foundation to any client outreach effort, as it looks at the whole of a firm's potential audience and then breaks it down into unique subsets to allow for more specific information to be directed to each group.

As expressed earlier, wealth management firms utilize a monolithic approach to their marketing, typically doing very little to speak to the specific goals and objectives of UHNW individuals, their families and family-office operations. A client segmentation strategy that focuses on these groups would remedy that situation.

If client segmentation is the foundation of marketing differentiation, market research is the heart – it is the beat that informs and then infuses all marketing and communications efforts. Because of the size and personal nature of the UNHW space, market research for this audience is typically best executed in the form of client surveys and interviews – an affordable, low-risk and high-reward investment.

This qualitative marketing format allows for a deep dive into a number of issues, including investment management, financial planning, trust and estate planning, multi-generational transfer, reporting and of course, client service. As a result, the level of detail and insights gleaned is usually invaluable. It serves to confirm and/or invalidate current strategies and approaches, and it provides new insights into strengths and weaknesses to either be amplified or corrected.

Client surveys built on a segmentation strategy and customized for various groups further allow for significant information to be collected, helping firms to truly develop and inform their differentiation efforts.

Wealth management firms need to clearly articulate their differences in approach, talents and capabilities. As Mel Lagomasino, Managing Partner & CEO of WE Family Offices said at the Summit, "The key is that clients need to understand the differences in each model so they can make informed decisions for their families."

Firms that focus on differentiation as a must-do strategy for their business will undoubtedly help their clients achieve this goal.

This Insight was prepared by Maria Lilly. Feel free to reach out to her at mjlilly@mjlilly.com with any questions or comments.