GROWTH AT RISK

Defining, Communicating, and Delivering Value
in an Increasingly Competitive Landscape

WISE

EXECUTIVE SUMMARY

| GROWTH AT RISK

A MORE COMPETITIVE LANDSCAPE

Increasing competition is putting future growth and profitability at risk.

Banks and trust companies are contending with an array of competitors, from their peers to RIAs and brokers. A handful of larger nontraditionals—notably Fidelity, Vanguard, and Charles Schwab—are scooping up assets much more rapidly than traditional providers, and technology enables the introduction of new service approaches from a bevy of smaller firms. Greater competition has no end in sight:

- Fee compression and mediocre growth rates in other asset management businesses make wealth management an attractive place to invest.
- Technology and product distribution partnerships will power small advisory firms while eroding the benefits of service breadth.
- Firms who have used technology, favorable service economics, and good brands to make inroads into the mass affluent segments will expand further into the high-net-worth market.
- Firms who are resolving the economic challenges of serving the mass affluent are unlikely to let them go as they inherit and accumulate wealth.
- Evidence of service model convergence—such as the addition of human advisors to digital offers—is a sign of what's likely to come.

Competitive dynamics contribute to a palpable sense of anxiety among industry leaders, many of whom see parallels in the fates of the railroads, video rental services, and other businesses that have fallen prey to innovation.

Cast in this light, current period margins and fee premiums seem far from guaranteed. Competition may permanently depress growth rates and cause loss of market share. Real financial risks warrant a real and robust response.

WINNING IN THE NEW WORLD: SIX THINGS FIRMS NEED TO DO TODAY

Fortunately, bank wealth managers and trust companies have some well-known and indisputable strengths. As such, they still can determine their future growth trajectory. Conversations with industry leaders about "value," complemented by a comprehensive survey of affluent and high-net-worth individuals, suggest a realistic roadmap for many.

1. MARKETING & BRANDING

The most impactful marketing initiatives will affect behavioral changes in advisors and sales officers.

Firms are aligning their brands and marketing messages behind “advice” and slowly relegating "investments" to a secondary role. The strong consensus, however, is that firm-level differentiation is all but impossible. Despite strong theoretical appeal, even firms’ fiduciary status—the pinnacle of "trustworthiness”—seems unlikely to favorably impact sales outcomes due to myriad practical realities.

Success, in contrast, is likely to come from relationship managers and sales officers whose labors are essential for helping prospects define “value.” Firms need to ensure that their advisors are equipped with consistent and compelling stories—about their firm, as always—but also about changes to the competitive landscape, the value of advice-led offers, and the benefits of noninvestment services.

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Many firms are also redesigning sales practices to more closely align with new value propositions. Their efforts are pushing advice further into sales processes and arming sales teams with new language and tactics for engaging prospects.

2. PRICING

The core service is a premium service. Firms must not compete on price.

Client data confirm the findings of the WISE 2018 pricing research: fees are only somewhat important in purchasing decisions. On most matters, clients routinely say that fundamental service model characteristics—about investments or advice—matter more than costs or fees. Client data confirm our view that when sales conversations are effective—in other words, when teams are well-equipped to describe value—fees are not usually an issue.

What is true is that lower fees and high rates of discounting are associated with inferior financial outcomes, such as lower revenue returns on assets. Bolstered by client data, our view is the same as in 2018: firms have an opportunity to improve revenue outcomes by strengthening their pricing and discounting practices.

3. SEGMENTATION

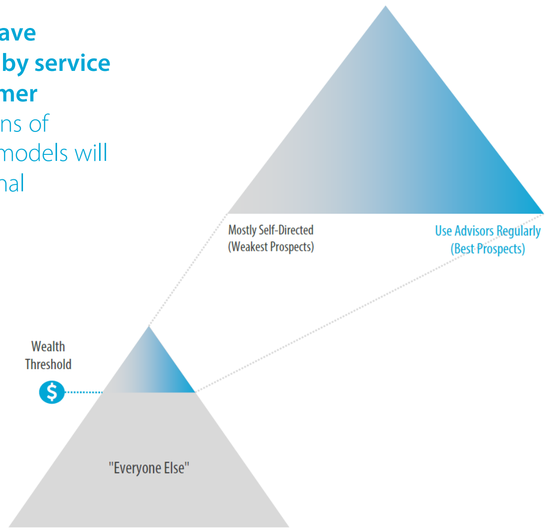
Get in early. Firms who wait to acquire relationships may sacrifice future growth.

Scores of industry conferences would suggest that there's an otherness about younger generations—that they are somewhat akin to an alien species with indecipherable needs and behaviors.

Our data supports the counter-hypothesis: that on fundamental issues such as whether they value advice or how they prefer to engage a financial advisor, their stated preferences are similar to those of senior generations. They have not yet accumulated as much wealth as other generations, however, exposing the limitations of traditional, wealth-based segments with high (and often rising) minimums.

The "Millennial Problem," therefore, is actually a problem with us: high cost service approaches don't work for consumers who aren't very wealthy. For younger consumers, fortunately, competition is serving up more choice, especially for the large numbers who are comfortable using technology. Firms with strong digital offers or effective feeder systems for routing the emerging affluent into traditional wealth businesses are well-positioned to retain business over time. Firms who wait may find themselves on the outside looking in.

Segmentation strategies have traditionally been defined by service costs as much as by consumer preferences. New generations of consumers and new service models will force firms to rethink traditional segmentation approaches.



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4. CLIENTS

Existing client relationships offer the best growth opportunities.

For most firms, at least 75-80% of business comes from existing clients and referrals. For firms—banks especially—with extensive networks of client relationships, the mandate is to optimize within their own fence posts.

Many firms are attempting to enhance past efforts by leveraging client data to identify high potential referral targets and sales opportunities. Others will find success in the tried-and-true. For example, our data suggest that client referrals remain an untapped resource: many more are willing to refer than have been asked.

ANIMATING THE ADVICE-LED VALUE PROPOSITION

5. TECHNOLOGY

Technology has few direct sales benefits but will have an outsized impact on growth. Enhancing advisors' sales and service efforts is a best bet.

Digital tools, websites, and other "visible" technologies have little impact on purchasing decisions. For existing clients, they similarly score low on their lists of desired service improvements. Our view is that good technology is a minimum service ante, not a differentiator

Behind the scenes, however, the story is totally different. At a minimum, firms are using technology to reduce operating costs and promote service consistency. Many firms have much greater aspirations, however, such as customizing advice using artificial intelligence.

Enhancing advisors' sales and servicing efforts is the promising middle ground. Firms who automate low-value servicing and administrative tasks can free time for proven, high-return relationship-building activities. Technology and client data are also improving sales and referral efforts by making them more targeted.

6. TALENT

Cultivating and developing the next generation of advisors is the final frontier.

Investment commoditization, widespread access to strong third-party technology platforms, and the challenges of differentiation imply that the quality of the advisor and sales officer will be the primary determinant of future growth. Moreover, people still like people. Face-to-face delivery of advice rates highly among consumers, a characteristic that—in our view—is unlikely to change for as long as wealth has an emotional component (e.g., it impacts feelings of security, family issues, and legacy).

As the value proposition has shifted, so too are firms' hiring profiles. Emotional intelligence, sales aptitude, and facility with technology are in high demand. However, a host of questions still require resolution: where to source new talent, how to prioritize skillsets, and most importantly, how to compensate talent. Firms' abilities to answer these questions effectively will go a long way to determining their future growth paths.

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