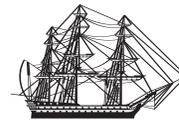


The Economics of Loyalty: Leverage the benefits of engaged clients

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It should come as no surprise that your most satisfied clients are also the best clients for your practice. But according to *Economics of Loyalty*, Advisor Impact's January 2008 study of financial advisor clients, taking a more holistic approach to your client relationships and moving clients from "merely satisfied" to "actively engaged" can have a demonstrable impact on profitability.

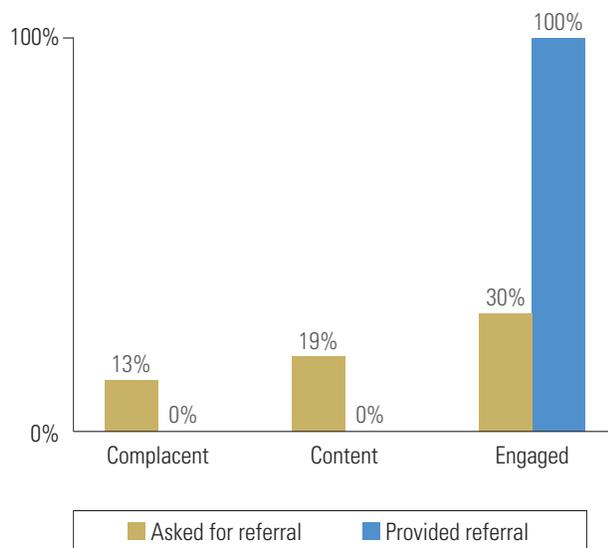
Learn how you can leverage the commitment of actively engaged clients in the growth of your business through referrals, greater share of wallet, additional services, "financial quarterback" trust, and family wealth management.

Referrals

Introductions from your best clients are a proven way to find well-qualified prospects and help build your business. When working with engaged clients, it is important to understand how you can effectively leverage their commitment to gain more and better referrals.

According to the *Economics of Loyalty* study, 100% of engaged clients provided at least one referral to their advisor. But a closer look at responses shows that simply asking for names of people who could benefit from your services is not the most effective approach.

Percentage of respondents who were asked for and who provided referrals



Source: Advisor Impact, 2008. *Economics of Loyalty*. (Research sponsor: Vanguard.)

The following table shows that when asked about the circumstances of the referral, engaged clients said in most cases the referral resulted from a conversation with a friend or colleague, not from a conversation with their advisor.

Percentage of 'engaged' clients who responded 'yes'

My advisor told me he was interested in referrals and I provided a name	6%
A friend/colleague asked me if I knew about a good Financial Advisor and I made the introduction	54%
A friend/colleague told me about a financial challenge and I suggested my advisor	45%

Source: Advisor Impact, 2008. *Economics of Loyalty*. (Research sponsor: Vanguard.)

These results suggest that clients provide a referral to do a favor for their friend or colleague, not for their advisor. According to Julie Littlechild, president of Advisor Impact, "It's about helping your best and most engaged clients to understand the kinds of problems you can solve for their friends, and making yourself a resource that your clients want to share. The focus has to be on problem-solving for their friends, not business-building for you."

However, some of your clients may perceive barriers to identifying referrals even though they are very satisfied with your service and think friends or colleagues could benefit from your help. The following insights from engaged clients can help you work around their resistance.

Percentage of 'engaged' clients who responded 'yes'

I am not comfortable discussing financial issues with my friends/colleagues	56%
My advisor has a minimum asset level and I cannot know if others are above or below that minimum	44%
I cannot be sure that my friends/colleagues will receive the same high level of service that I have received	11%
I am not satisfied with the level of service that I receive	0%

Source: Advisor Impact, 2008. *Economics of Loyalty*. (Research sponsor: Vanguard.)

When you understand the circumstances and potential barriers surrounding referrals from engaged clients, you can then take steps to facilitate the referral process by:

- Helping clients to spot referral opportunities.
- Defining and communicating the characteristics of your best clients, including any minimum requirements.
- Assuring clients that all clients and prospects receive the same level of service.

According to Littlechild, you can help clients spot referral opportunities by telling them more about how you have helped specific groups of clients, as the example below suggests:

“James, we’ve had a lot of success in working with business owners who are selling their businesses. As you know, it can be an extremely stressful time, and it’s also fraught with risk that requires the right advice. We’ve helped many business owners navigate the process, working closely with their legal and tax counsel. I know you talk to other business owners, so if any of them are working through this process and may need help, we’d be more than happy to speak with them. Let me tell you a little more about the kind of business owners we can help....”

You can overcome the minimum asset level barrier by letting your clients know the kinds of people you can help. In the conversation above, for example, you might say you work with business owners with ten or more employees, suggesting a minimum net worth. You can give clients enough information to help them identify a potentially good fit without going into specifics.

If the referral isn’t a good fit, reassure your client that you’ll refer the individual to someone else. Remember that the fit doesn’t have to be about assets, but more about the needs of that client. Littlechild suggests the following example:

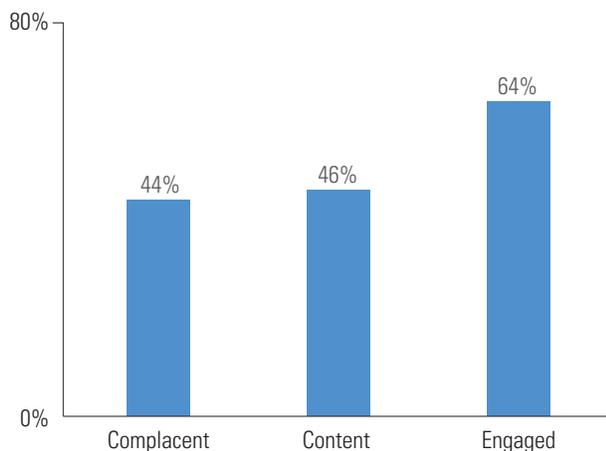
“James, we really appreciate referrals. It means a great deal to us that you trust us to work with your friends and colleagues. As you know, we work with a very specific group of clients so that we can add the most value. However, from time to time clients’ needs won’t fit with our model, and we prefer, in that case, to refer them to another advisor who can provide them with a range of services more appropriate to their needs. Even someone with a similar amount of assets to the rest of our client base may need different services. I just wanted you to know that, in case it turns out that one of your friends would be better served elsewhere. Rest assured though, that we’ll do our utmost to help them find the best solution based on their needs.”

Share of wallet

When developing engaged clients, you establish a true understanding of individual client needs that puts you in the best situation to increase your share of clients' assets. One way to bring a much deeper level of insight is to prepare a written financial plan. The process of creating and reviewing a financial plan provides opportunities for conversations beyond financial goals.

The *Economics of Loyalty* study found that engaged clients are very receptive to the idea of developing a comprehensive financial plan. The study reported that 64% of engaged clients had a financial plan, compared with 46% and 42% for content and complacent clients, respectively. And 57% of engaged clients said that having a written financial plan was critically important, while another 26% felt it was somewhat important. Furthermore, 69% of engaged clients said they were very satisfied that they had a clear plan in place for retirement.

Percentage of respondents with a financial plan



Source: Advisor Impact, 2008. *Economics of Loyalty*.
(Research sponsor: Vanguard.)

But for you and your clients to realize the most benefits from a financial plan, you need to go beyond the numbers and factor in the qualitative insights you gain by developing engaged clients.

According to Mitch Anthony, president of Advisor Insights Inc., "The numbers should not exist to drive the client's life, but to support it. If we believe this, we must place primary emphasis on qualitative factors and secondary, supportive emphasis on the quantitative. This, in a nutshell, is the philosophical footing of financial life planning."

Anthony outlines the following four cornerstones of a client's life that need to be understood in order for the financial process to be most successful:

- History
- Present circumstances
- Hopes and goals
- Principles and values about life and money

An effective technique to help clients open up and share insights on these cornerstones is to ask simple questions, such as: What was money like growing up? or What is a goal you have yet to accomplish?

As Anthony goes on to explain, when you know the story behind the numbers, the numbers come to life, and you can express objectives in anecdotal terms that reflect the clients' unique concerns, goals, and principles. This connection with your engaged clients then puts you in an optimal position to attract bigger portfolios including rollovers, inheritances, and other consolidated assets.

Additional services

The clients with the most profit potential are often those who want you to address the broadest range of financial needs. The clients themselves may identify those needs, or you may uncover them through a holistic financial life planning approach. As you work with engaged clients, you can attain a greater share of assets not only by going deeper with existing investment management, but also by going broader and offering value-added services.

“In the financial life planning model,” Mitch Anthony explains, “we seek to help the client in the areas of asset management, risk management, debt management, tax planning, estate planning, and distribution planning.” In the process of developing engaged clients, such as creating a financial plan that balances quantitative and qualitative insights, you discover opportunities to maximize your client’s resources to create the best quality of life.

Broadening your business with additional services may be as simple as letting clients know what all you offer. But don’t just present a list of your services. Use opportunities such as periodic client reviews to demonstrate how one or two additional services can combine to offer further benefits to an existing portfolio or financial plan.

Some engaged clients may be ready to expand the relationship, while others may want more information. To facilitate ongoing conversations on how your additional services add value, consider the following:

- Develop marketing events targeted at clients with a stated need or interest. For example, conduct a quarterly seminar on a specific topic (e.g., saving for college or women and investing). If possible, make the events exclusive for existing clients only. If you also want to use a topic to reach new prospects, make that a separate workshop.
- Present your full range of service offerings consistently across your client communications. Include this information on your website, in your newsletter, in a service agreement, and on printed materials such as the folders you use to present financial plans or client reports.

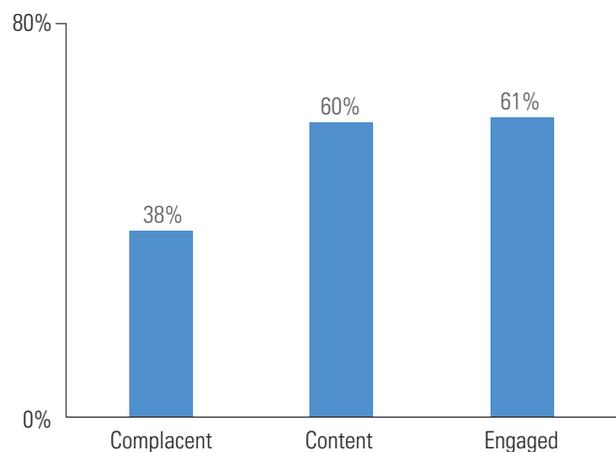
Financial quarterback trust

Effectively serving your clients means keeping your focus on their individual needs. When you offer additional services, you may uncover situations that go beyond your level of expertise in certain areas. You also will likely find opportunities to interact with attorneys, accountants, and other professionals with whom your clients have already established loyal relationships.

To meet your clients’ needs in these situations, you must respect your position as a trusted advisor and facilitate the involvement of other professionals. However, rather than relinquishing control, use the opportunity to proactively coordinate the involvement of others with you at the center of the process, thus increasing your value and establishing greater client trust and loyalty.

The *Economics of Loyalty* study reports that approximately 60% of both content and engaged clients rely on their financial advisor to coordinate with other advisors, naturally putting the advisor at the center as quarterback.

Percentage of respondents whose advisors coordinated with other advisors



Source: Advisor Impact, 2008. *Economics of Loyalty*.
(Research sponsor: Vanguard.)

Consider the following steps to help establish and maintain yourself as quarterback for your clients' affairs:

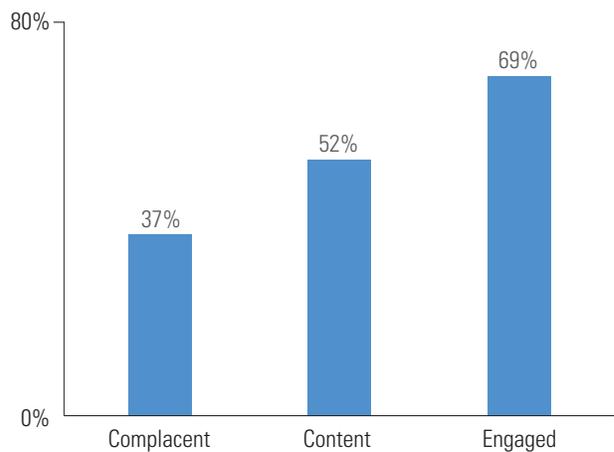
- Prepare for future opportunities to help your clients by establishing relationships with professionals such as attorneys, accountants, business consultants, mortgage brokers, and even travel agents or family therapists.
- Seek introductions to the professionals with whom your engaged clients want to maintain relationships. Meet with these professionals and establish common ground around providing the best level of service to your shared client. Such interactions are also a great way both to expand your own network of trusted professionals and to generate future referral opportunities.
- Explain to clients how you will involve other professionals and host or attend meetings regarding your clients' needs that may enhance your financial life-planning role. Follow up with clients to reinforce how other professionals' advice fits into your clients' overall financial plans.
- Discuss the benefits of a comprehensive, single-advisor approach with clients for whom you do not manage the majority of assets. Look for opportunities to demonstrate value through your additional service offerings and your network of professional experts.

Family wealth management

When establishing what is most important to clients, items at the top of the list often directly or indirectly impact clients' families. Your role as an advisor quarterback can extend to facilitating difficult family conversations on financial matters and to helping clients' children learn to be financially responsible adults.

According to the *Economics of Loyalty* study, advisors of engaged clients are much more likely to also work with other family members, specifically children. By establishing your value as a family's advisor, your client's loyalty will likely transfer to children, especially if these children have opportunities to see how you help the family in your financial life-planning role.

Percentage of respondents whose advisor works with other family members



Source: Advisor Impact, 2008. *Economics of Loyalty*. (Research sponsor: Vanguard.)

To increase your value to your clients and establish yourself as their family's advisor, consider the following:

- Offer to facilitate a family conference for engaged clients with adult children to review estate planning. Include the executor of the will in that discussion.
- Include the adult children of engaged clients in workshops and mailings of interest.
- Target some of your communications on topics that may be of interest to the entire family (e.g., caring for an elderly parent).
- Help your engaged clients to involve younger generations in decisions regarding philanthropy.
- Look for opportunities to help your clients teach children or grandchildren the basics of financial responsibility and investing. Assist clients with educational resources and offer to establish investment accounts with minor children when appropriate.

Overall, taking a holistic approach to your client relationships and moving clients from “merely satisfied” to “actively engaged” can have a demonstrable impact on profitability. But the benefits don't end there. By building on your engaged-client foundation with additional opportunities to better serve your clients, you enhance your financial life planning relationships and help your business prosper.

Additional resources

For more information and ideas on how you can build your business, visit us at advisors.vanguard.com/loyalty or call 800-997-2798. An overview of the *Economics of Loyalty* study, as well as information regarding the life-planning approach for financial advisory professionals, is also available.

Not registered for website access yet? Sign up for free at advisors.vanguard.com/register and get immediate access to Practice Management tools and information, plus other secure areas of the site.



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