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Blue Ocean Marketing

Planners need a different business model to serve middle-market clients profitably.

By Jessica Maldonado

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The words sunk in as I listened to a group of smart advisors vividly describe the steps they would take to grow their firm. As I sat through a special TD Ameritrade Institutional summit last year for advisors, I couldn't get the conversation out of my mind.

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The discussion with Trovena's Christopher Van Slyke and Scott Leonard was the inspiration for my firm - Searcy Financial Services of Overland Park, Kan., - to create a new but affiliated company: Allos Investment Advisors. That week, with the idea still fresh in our minds, Mike Searcy, the firm's president, and I began to sketch out a plan that we would unfold when we returned home.

RIGHT-SIZING THE SERVICE

Our new firm would be based on a friends-and-family plan I had rolling around in my head. Like many other advisory firms, we were looking for a way to reach out to prospective clients who might not meet our minimum criteria - the middle market - and to find a way to serve them profitably. Searcy Financial, with \$145 million under management and a loyal client base of 133 families, foundations and businesses, was geared toward wealthy investors.

Trovena, which has offices in California, New Jersey and Texas, had established its side business, OnCubic, to provide asset management services to people who did not fit Trovena's client criteria: \$500,000 or more of combined annual income or \$3 million or more in wealth. Those planners also realized that some people, even if they met the net worth and/or combined annual income criteria, still might not want or need comprehensive wealth management services.

Van Slyke, a Trovena partner and co-founder, told me, "We have never been more profitable. Having both business models allows us to right-size the service that we are delivering to our clients. It allows us to focus on who the clients are and exactly what we do for them. You can't serve middle-income clients in the same way that you do the super-wealthy because they don't have the same problems, issues and concerns."

Longtime industry consultant Bob Veres calls what we and Trovena are doing a "blue ocean" strategy, referring to a marketing approach espoused by W. Chan Kim and Renee Mauborgne on "how to create uncontested market space and make competition irrelevant." In fact, Veres says having such a plan is one of the "seven essential elements for the future." Veres cites three principles behind blue ocean marketing:

* Financial planning cannot become a part of the economic mainstream unless it serves not just the complex, wealthier segment of the population, but also the rest of the world.

* The core message of financial planning is applicable to everyone - save 15% to 20% of your income, diversify your investment portfolio and hold on for the long term without trying to trade your way to an above-average return.

* A firm that works with higher-net-worth individuals cannot open its marketing spigot unless it has a way to accommodate middle-income clients.

THE STRATEGY

I'm all for helping our firm, our profession and the middle market, but we had more pressing reasons for choosing a blue ocean strategy. We were struggling with four specific issues - loyalty to clients, increasing referrals, changing client dynamics and firm acquisitions.

At the TD Ameritrade summit, the discussion with Van Slyke and Leonard sparked from a key concern we were wrestling with: Many experts advise firing the bottom 20% of your clients in order to create capacity to take on clients with even greater wealth. But when you've built a practice over 35 years, how do you fire the same people who brought you to the dance, who were there back when you would take on anyone just to survive? There was a loyalty issue we just couldn't get past.

In 2009, we sent out our first client survey. About half responded, and 90% of those who did indicated that they were likely to recommend our services to family, friends and colleagues. Nonetheless, in the six months following the survey, less than 2% of clients who said they would be happy to provide a referral had done so.

When we followed up, we found that, although our clients were delighted to make a referral and knew people who could benefit from our services, they were uncomfortable making those referrals. They did not want to try to prequalify their referrals to determine if they met our minimums. And they did not want to embarrass their referrals by sending them to us, only to learn we would not be willing to work with them. We needed to find a way to make it easy for our clients to make referrals and know that we would take care of them.

We were also starting to see a trend among clients who have been with our firm for several years. They started with us in accumulation mode and we did all kinds of planning for them, but they eventually arrive at a place where they have what they need and are living their vision for their life. At that point, they just need someone to manage their portfolio. What do you do with clients who are "planned out," but need quality asset management and only occasional advice?

In addition, many existing clients have children who are beginning to save for their futures. They need help managing their assets and someone to turn to with basic financial planning questions, but many do not need comprehensive financial planning. They are good savers, accumulating assets, with careers on the rise. How do you serve clients' children and grandchildren and still make it profitable?

Many of our baby boomer clients want us to help their Gen X and Gen Y family members, but they do not want us to take them on as clients only because we feel loyal to the older generation. While these younger clients may grow into Searcy integrated planning clients as they age and their lives become more complex, we needed a solution for serving them in the interim.

Another issue: The average age of wealth managers has crept past 55, yet industry research indicates that less than 10% of advisors have succession plans in place. That means a huge number of advisors will need to transition their clients to another advisor in order to exit the business.

We have twice considered making an acquisition, but only the top five to seven clients in the average practice would qualify to be our clients based on our existing business model. We needed a solution that would meet clients' needs and allow an advisor to transition out of the business, comfortable that his or her clients would be properly looked after.

RELYING ON TECH

We launched Allos Investment Advisors early this year as a fee-only, investment management firm with no minimum initial investment requirement. The company is highly technologically leveraged, so we can accommodate more clients with fewer resources and have a scalable business model.

At the suggestion of Leonard, we built the firm to provide the same consistent experience to each and every client. And we're working diligently to place the right people in the right positions so that they can perform optimally, in their own unique sweet spot of creativity and talent.

We are focused on word-of-mouth marketing through the 90% of clients who indicated a willingness to refer us, and through other unpaid, but much appreciated, referral partners. We're confident this model will be a win for all sides.

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