

Protecting Profitability in the Post-Crisis

Eliminate “Overservice” by Aligning Client Value and Service Levels

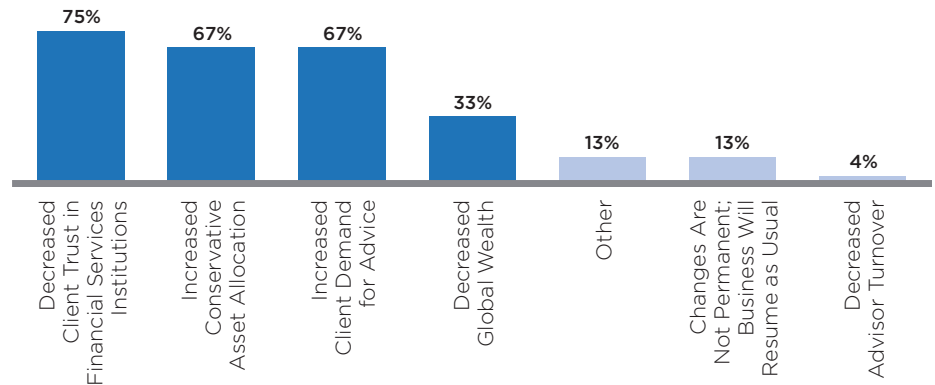
Seventy-five percent of wealth management executives are rethinking their service model in light of the financial crisis.

AN UNSUSTAINABLE SERVICE MODEL

Business Will Not Return to Usual. Wealth managers have taken a large revenue hit as AUM fell precipitously across the past year and as clients placed more of their holdings in low-margin products due to decreased trust and risk tolerance. At the same time, costs have increased as clients demand more advice and firms make up for poor portfolio performance through even greater levels of service. While these changes stem from the crisis, wealth management executives believe they will have a lasting impact on their business.

Crisis-Related Changes That Have Lasting Impact on Wealth Management Business

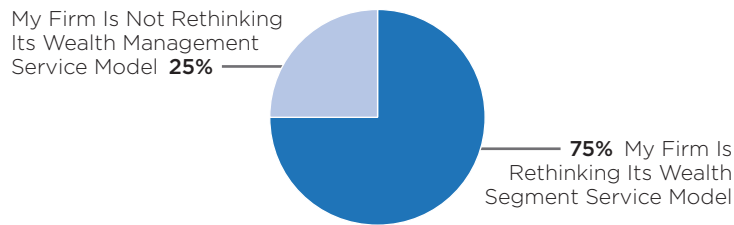
Percentage of Respondents, Global, 2009



Impact Is Structural Not Cyclical. Most firms continue to operate under an unsustainable, expensive “one size fits all” model that fails to align service levels to client profitability, resulting in “overservice” for a significant percentage of clients. While firms could afford overservice in the past, they no longer have the luxury to devote scarce and costly resources to relationships that do not need or justify the investment. The crisis will have a structural, not cyclical, impact on the wealth management business, leading seventy-five percent of surveyed wealth management executives to rethink their service model.

Percentage of Firms Rethinking Their Wealth Management Service Models

Global, 2009



n = 24.

Source: The VIP Forum 2009 Wealth Segment Economics Survey.

ESCAPING THE “OVERSERVICE” TRAP

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Escaping the “Overservice” Trap

Matching Service Models to Wealth Segment Economics

Firms must align service levels with clients’ value to the firm.

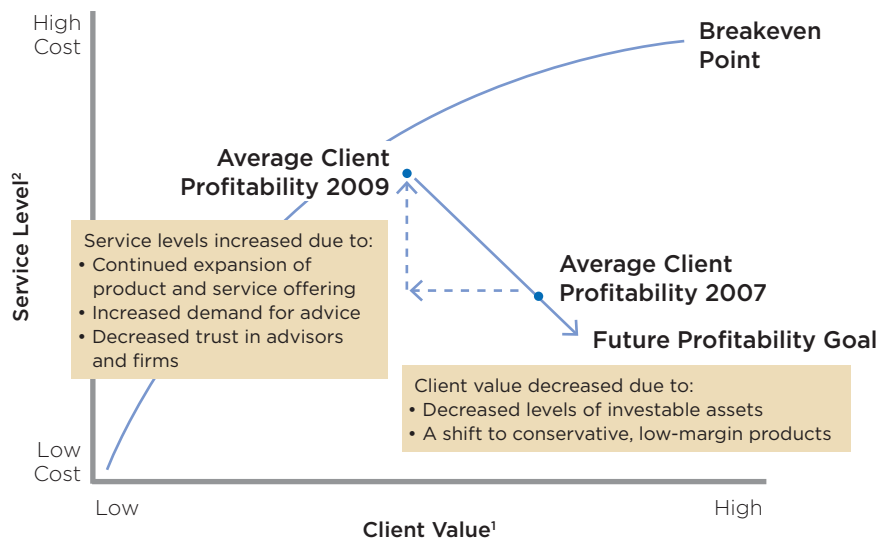
PROTECT PROFITABILITY BY PREVENTING “OVERSERVICE”

Don’t Overemphasize Service. Most institutions emphasize the importance of service, failing to teach advisors to manage their books as a small business venture. The result is advisors spending far too much time on clients who do not provide a return on the investment.

Target Scarce Resources. To protect margins, firms must right-size their service model by serving only those clients that can truly benefit from and pay for the breadth and depth of the wealth management offering, and migrate those who can not to less complex, more cost-effective offerings.

Relationship Between Client Value and Service Level

2007 Versus 2009



¹ Client Value determined by revenue, assets, and potential (i.e., revenue, assets, community influence).

² Level of service required and offerings available to clients.

WHAT YOU NEED TO DO

Recommendation #1: Instill a business management mindset in advisors. Equip advisors with the tools and skills needed to identify the economic value of each relationship and to manage their books as small businesses.

Recommendation #2: Scale advisor expertise. Deploy staffing structures to effectively leverage two scarce resources: advisors’ time and skill sets.

Recommendation #3: Create disciplined service offerings that set client expectations. Differentiate service offerings by segment and migrate clients to one they can benefit from and pay for.

HOW WE CAN HELP

Case Discussion “Partnership-Driven Client Migration”— Drive front line advisors to seamlessly migrate low-value clients to a lower-cost offering without damaging relationships.

Case Discussion “Profitability-Driven Service Delivery”— Scale advisors’ expertise by creating offerings that leverage advisors’ skill sets, while reducing the cost-to-serve.

Case Discussion “Expectation Based Client Value Tiers”— Tier clients based on their overall value to the firm and set explicit service standards for each tier to ensure cost-to-serve and client value alignment.

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