Spring 2013

Building it Better

Key Steps for Managing the Transition to Advisory

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AllianceBernstein

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The Future of Advice: Being Retained for What You Know

If your clients pay you for what you do…

…your prices and the competition will always be an issue. Your value will be limited to "what have you done for me lately?"

If your clients retain you for what you know…

…they will appreciate what you have done, are doing and *will do for them in the future.*

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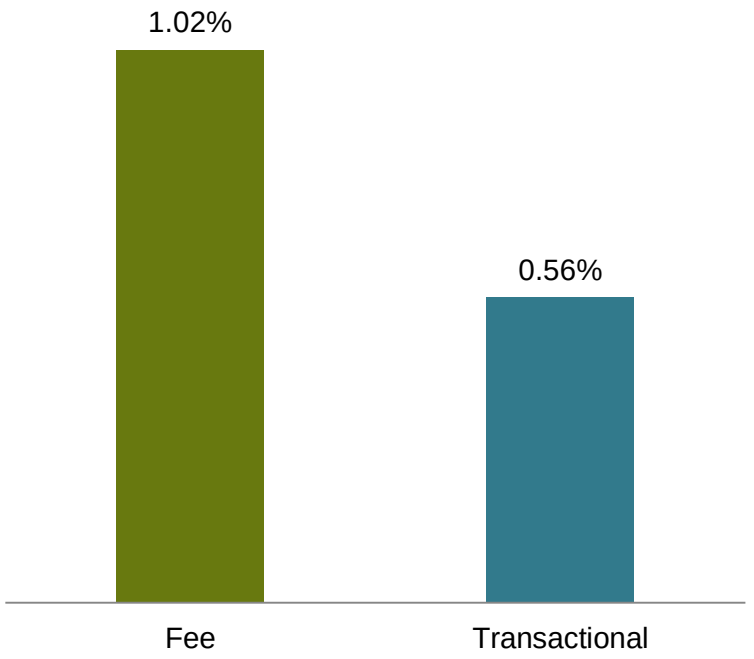
“Advisory” Practices Demonstrate Significant Advantages

- FAs who charge fees are paid for what they know; FAs who charge by transactions are paid for what they do
- Fee-based relationships require a more clear definition of the way value is delivered (what the client is paying for)
- Households with fee accounts have a RoA that is almost double households that remain transactional

Average Household Revenue on Assets: 2010



Source: PriceMetrix, 2012

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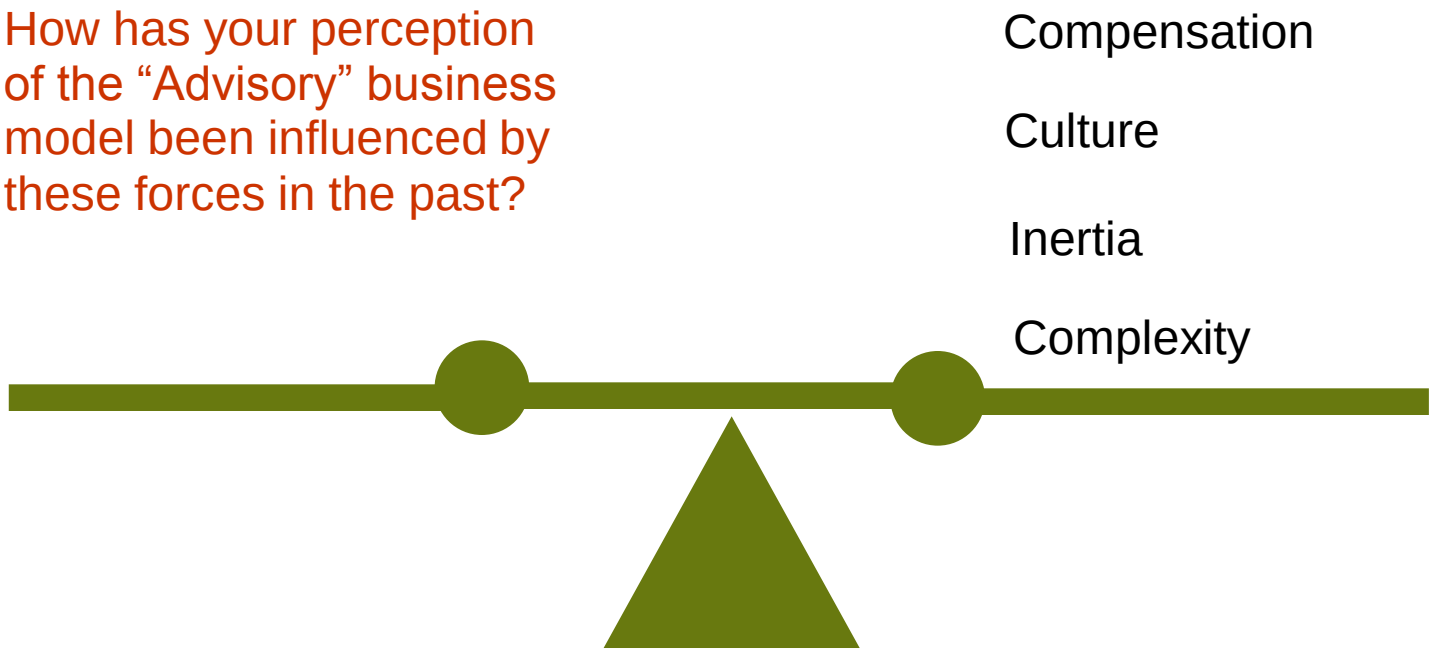
“Advantage” Drives Change—But Change Is Painful

Complexity inhibits the rate of change—complex innovations are harder to learn

How has your perception of the “Advisory” business model been influenced by these forces in the past?



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Source: Diffusion of Innovations by Everett M. Rogers, 2003, p. 281

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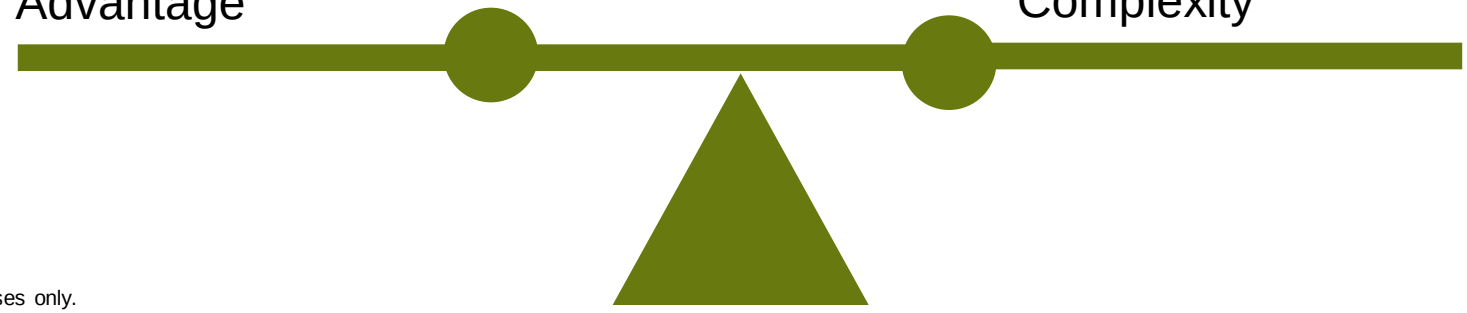
Some Forces Accelerate the Pace of Change

Nine positive forces accelerate adoption of new ideas

- Incentives
- Perceived Threat
- Freedom to Act
- Tight Network
- Trial-ability
- Observe-ability
- Immediate Benefit
- Familiarity
- Advantage

- Compensation
- Culture
- Inertia
- Complexity



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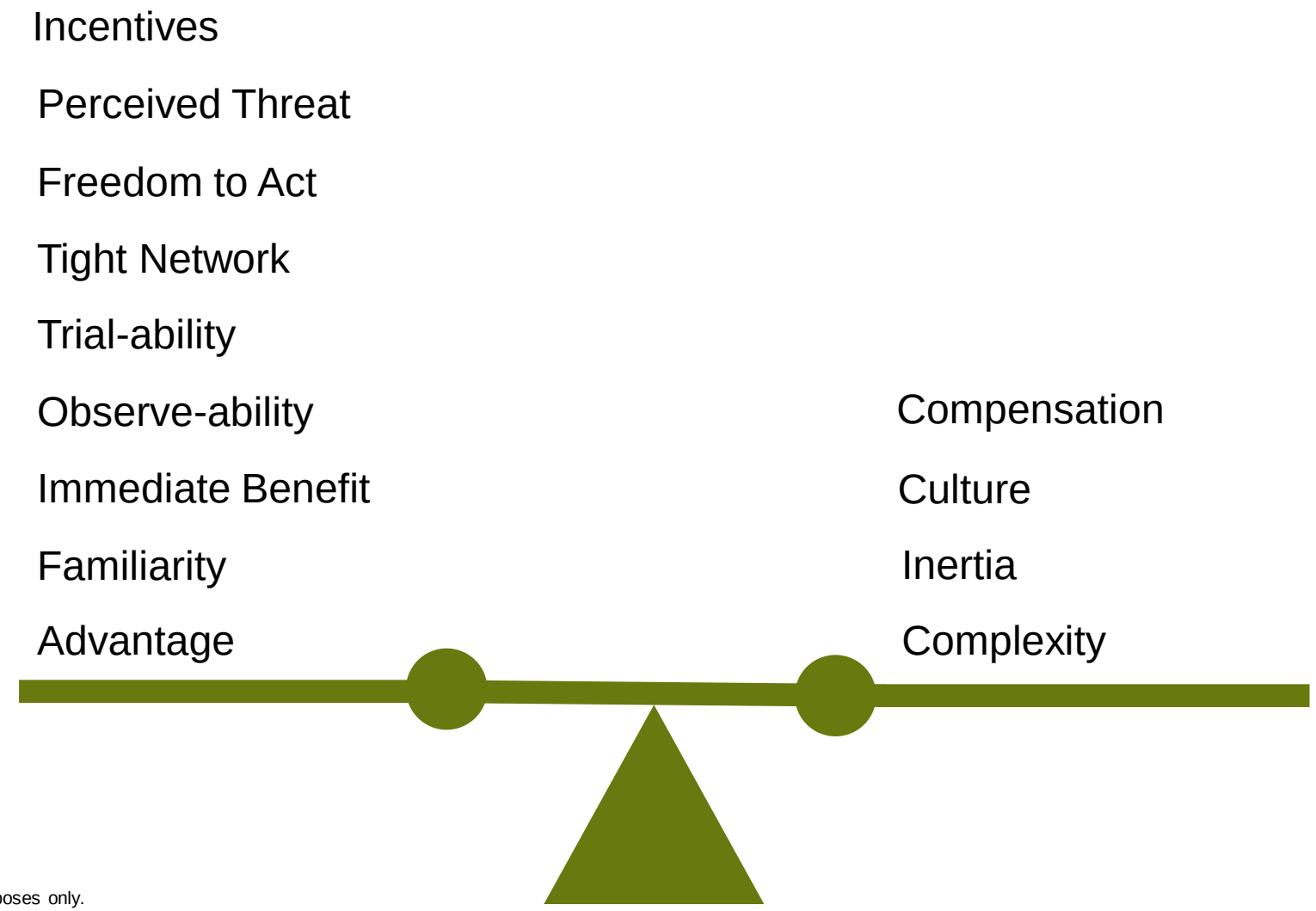
Some Forces Accelerate the Pace of Change

Advantages and Early Adopters accelerate change



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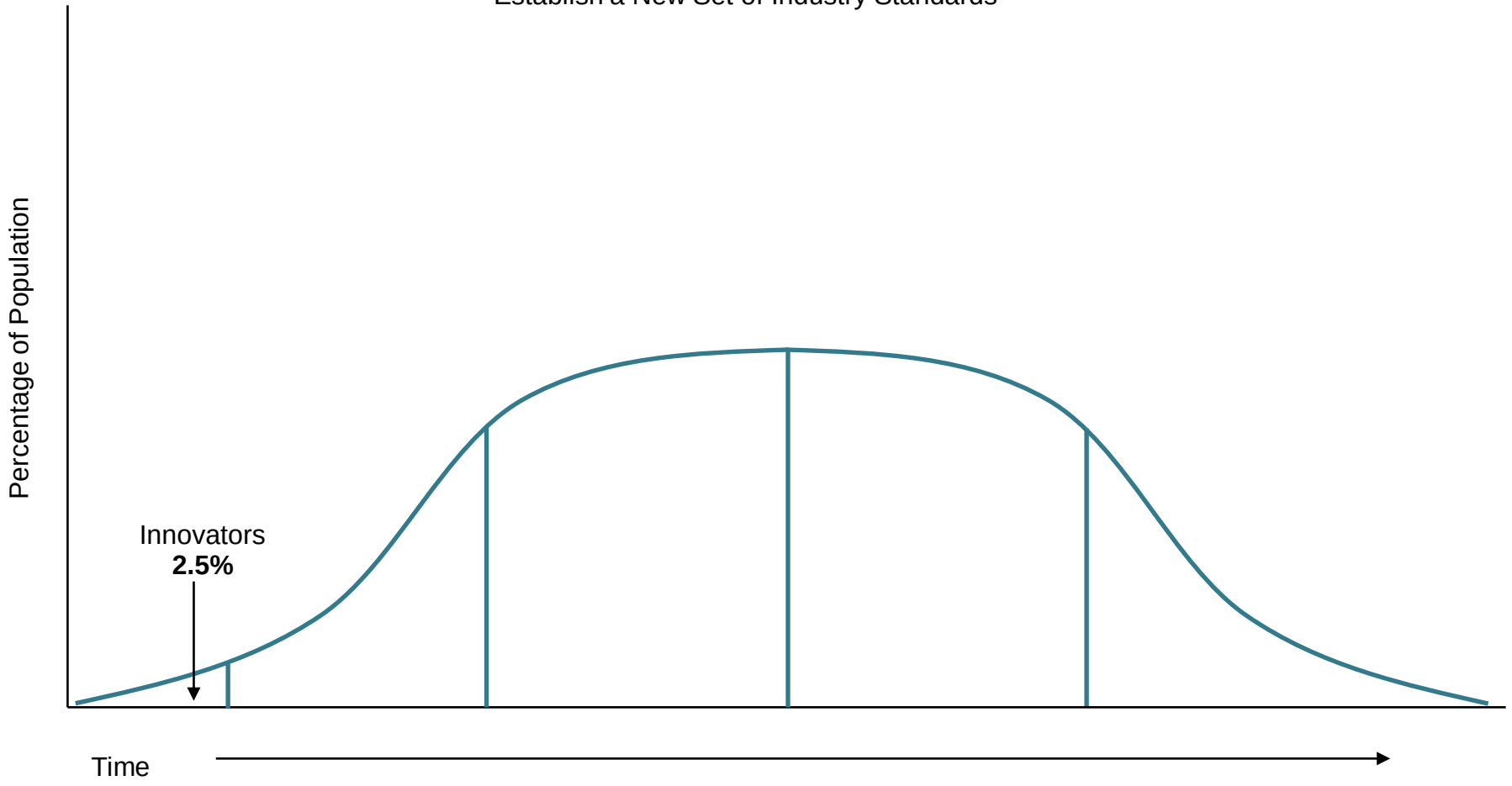
Some New Ideas Gain Traction: "Diffusion of Innovations"

Innovators
A Small Group of Early Adopters
Establish a New Set of Industry Standards



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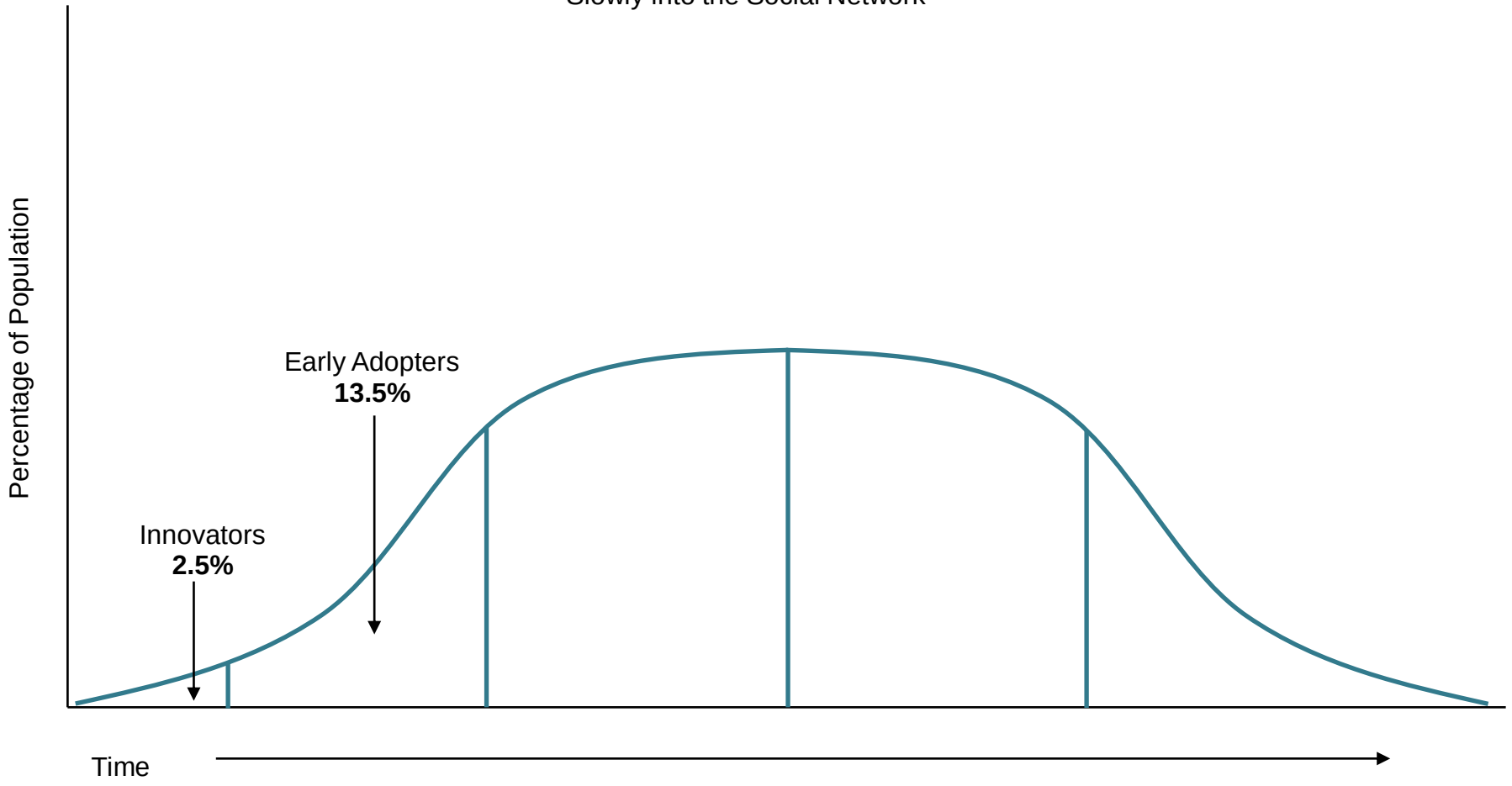
Some New Ideas Gain Traction: "Diffusion of Innovations"

Early Adopters
The Principles "Catch On" and Begin to Spread
Slowly into the Social Network



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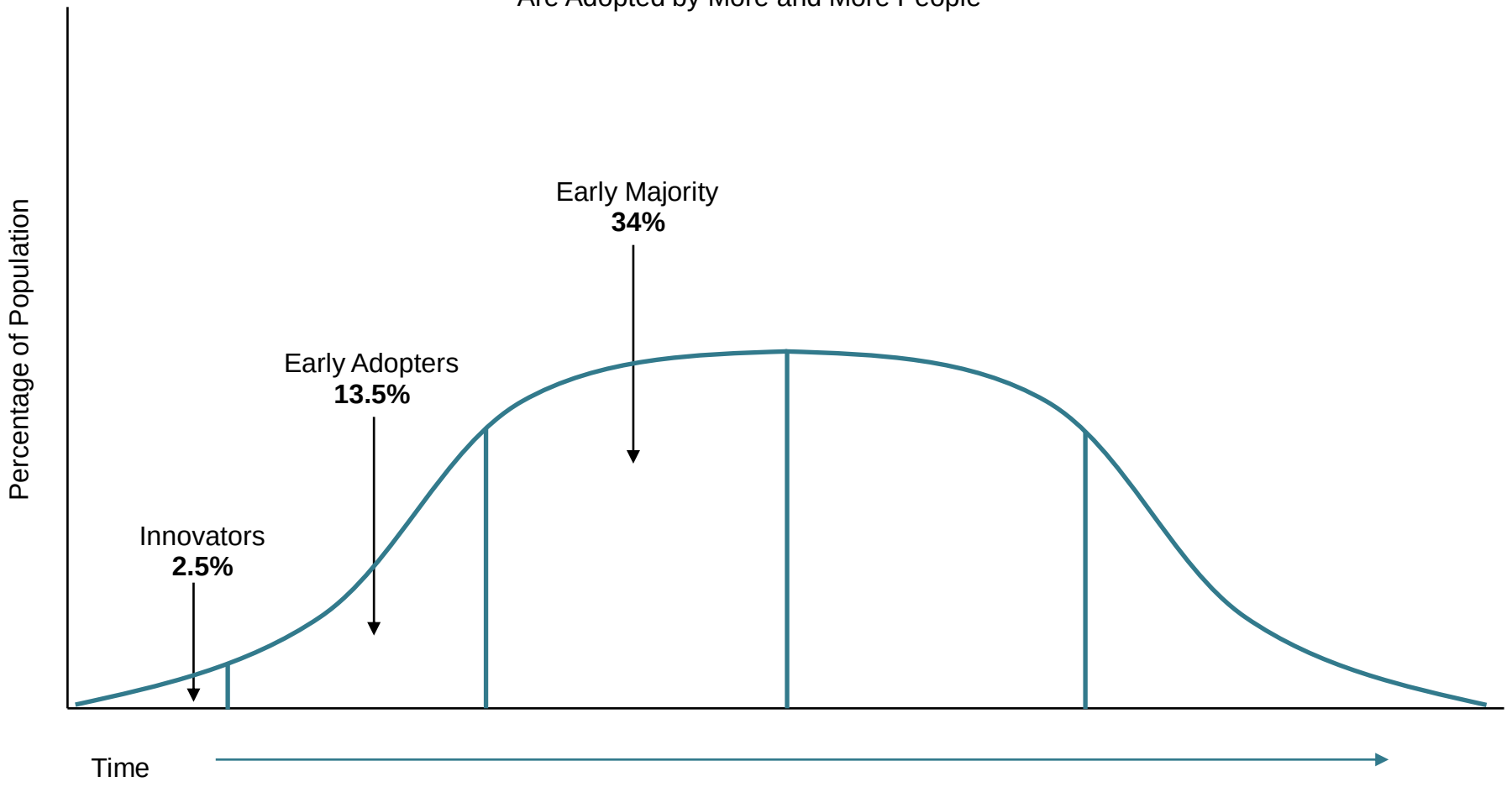
Some New Ideas Gain Traction: "Diffusion of Innovations"

Early Majority
Explosive Growth as the new Standards and Principles
Are Adopted by More and More People



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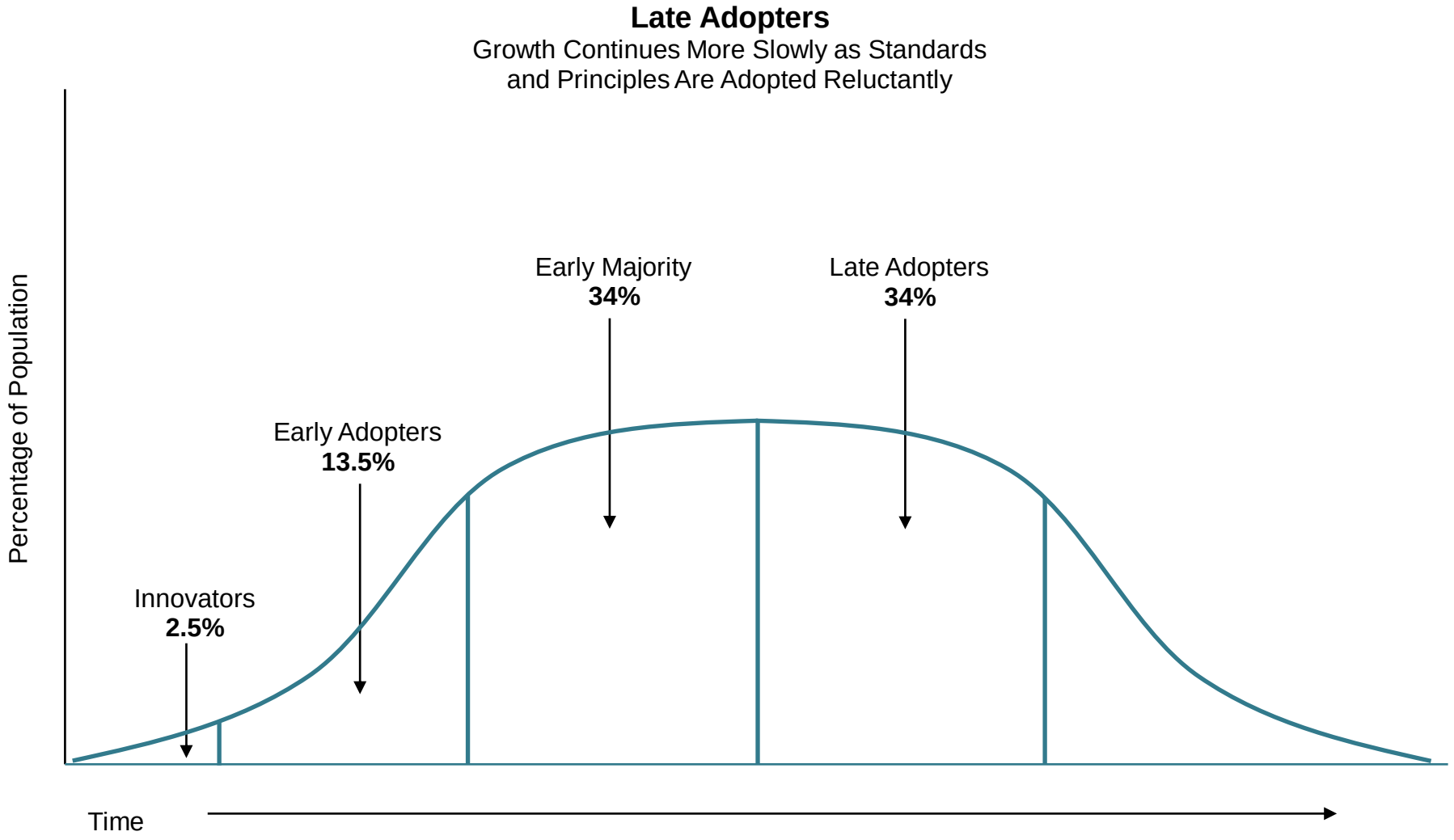

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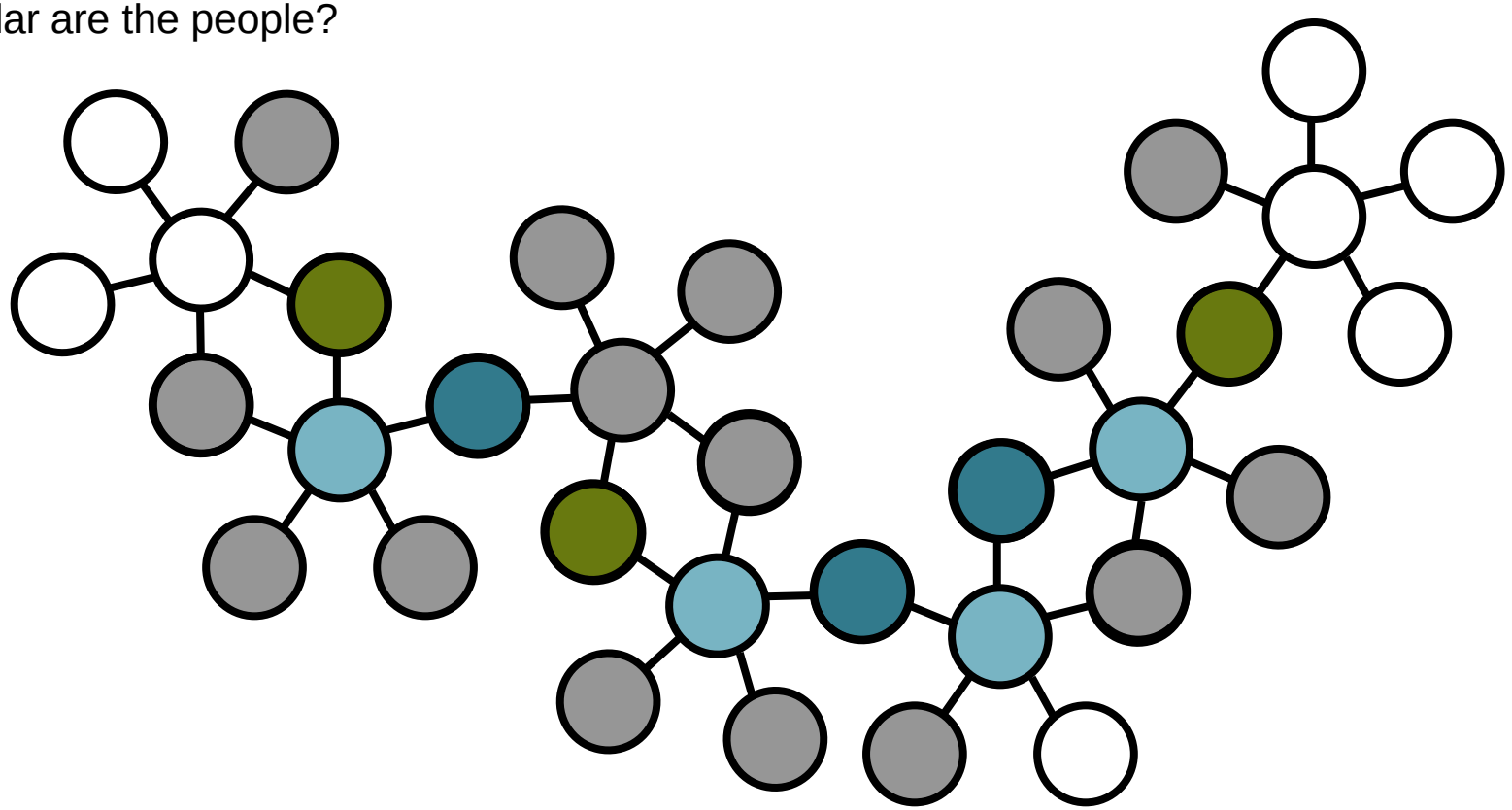
Predictable Adoptions Rates—Anticipating the Future

- How “tightly connected” is the social network?
- How similar are the people?



Thought Leaders	Innovators	Early Adopters	Early Majority

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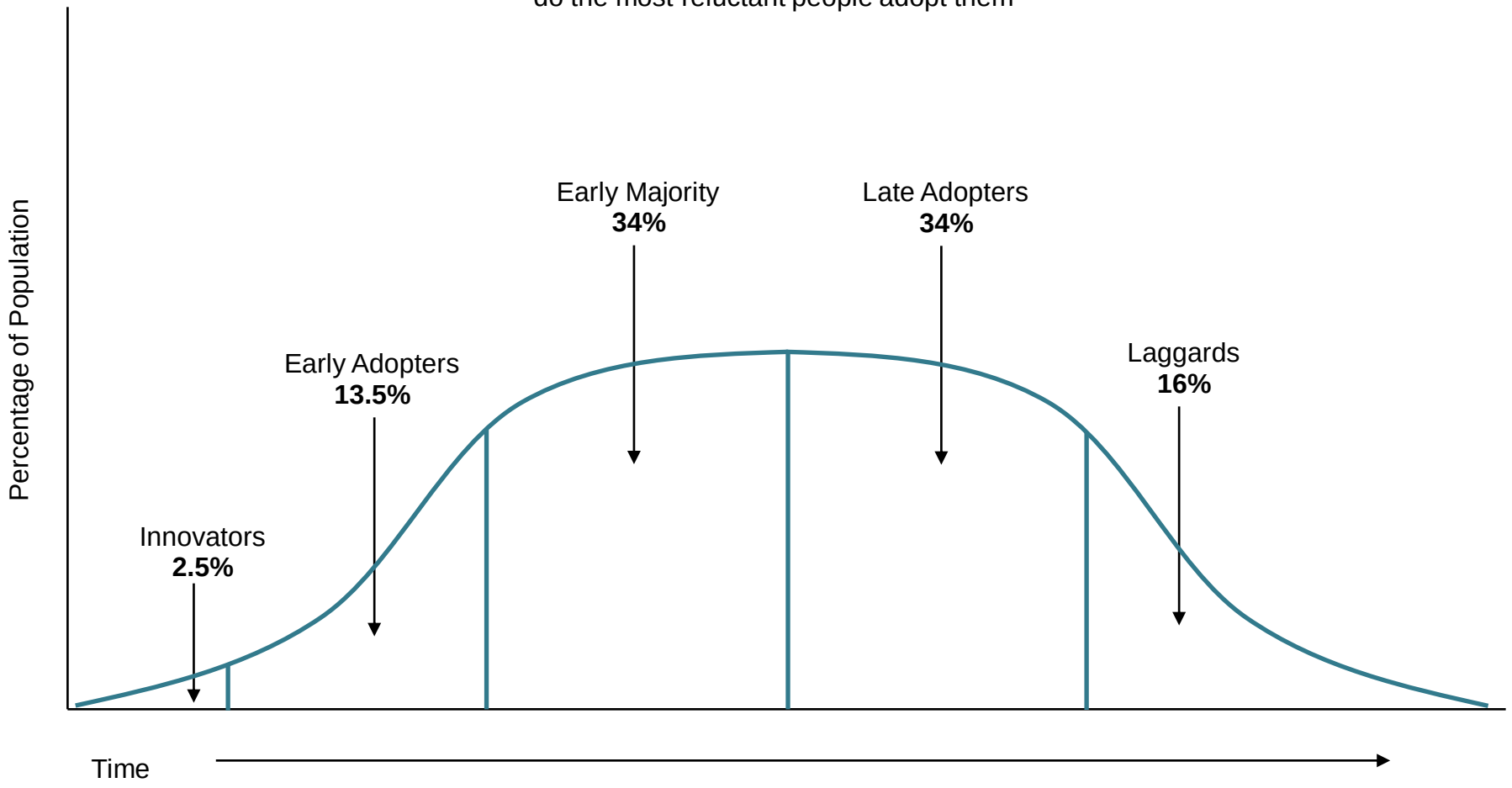
Some New Ideas Gain Traction: "Diffusion of Innovations"

Laggards
Only when the new standards have become widely accepted
do the most reluctant people adopt them



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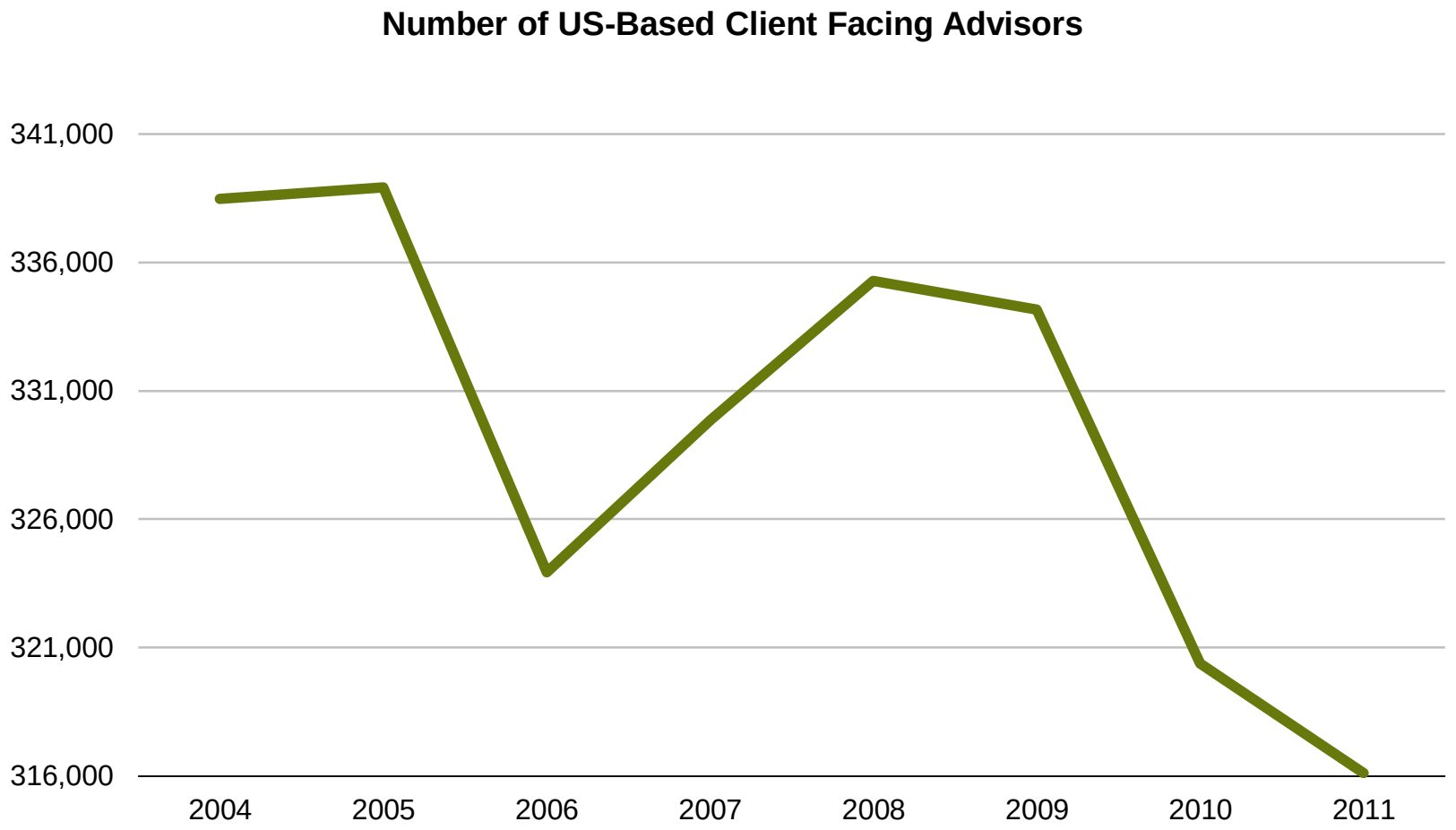
Evidence of Irrelevance: Decline of Client-Facing Advisors



Historical analysis does not guarantee future results.
As of December 31, 2011
Source: Cerrulli, 2011 IQU

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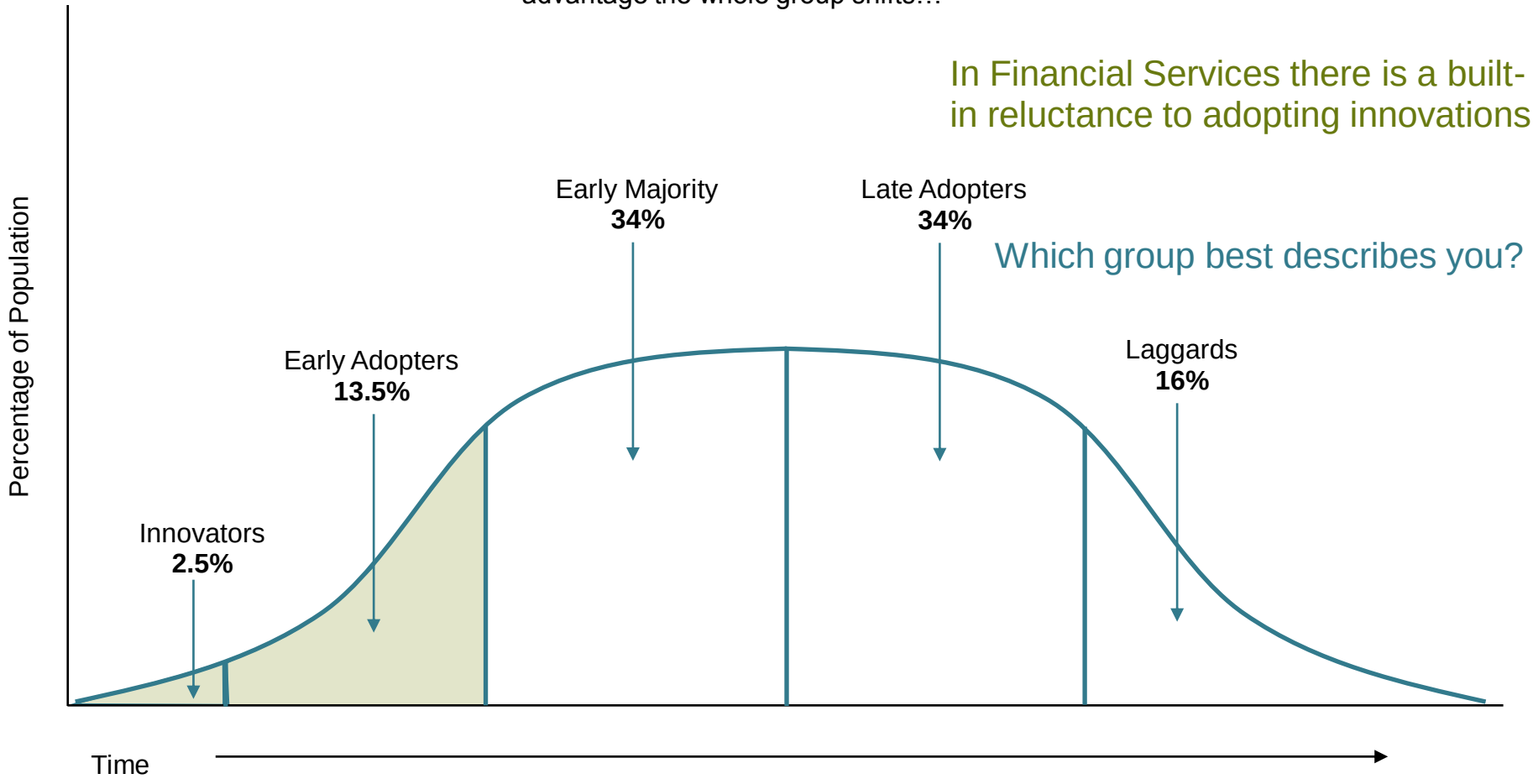
Financial Advisors Tend to Resist Innovation

Some Groups Change More Slowly

Usually, when 10%–15% of the group demonstrates a competitive advantage the whole group shifts…



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Putting “Transition to Advisory” Into Perspective

Could: There are many things that you could do today

Should: There are some things that you should do today

Independent thinkers resist pressure from others

MUST: There are a few things that you must do today

Those activities you feel you **must** do each day will define the quality of your future

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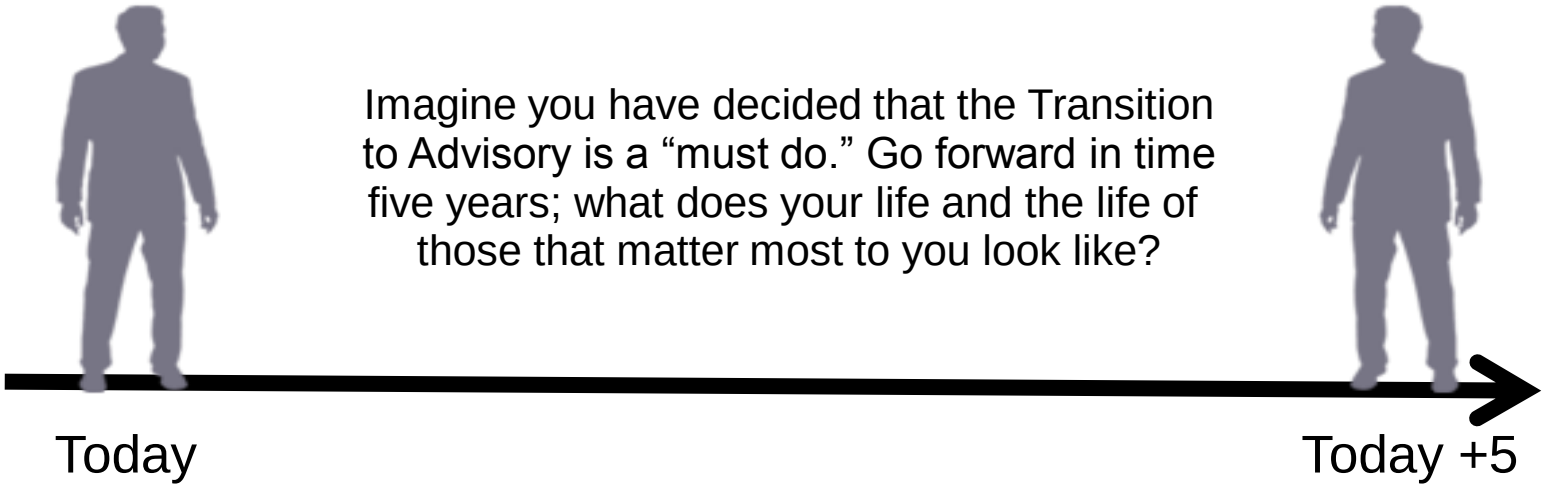
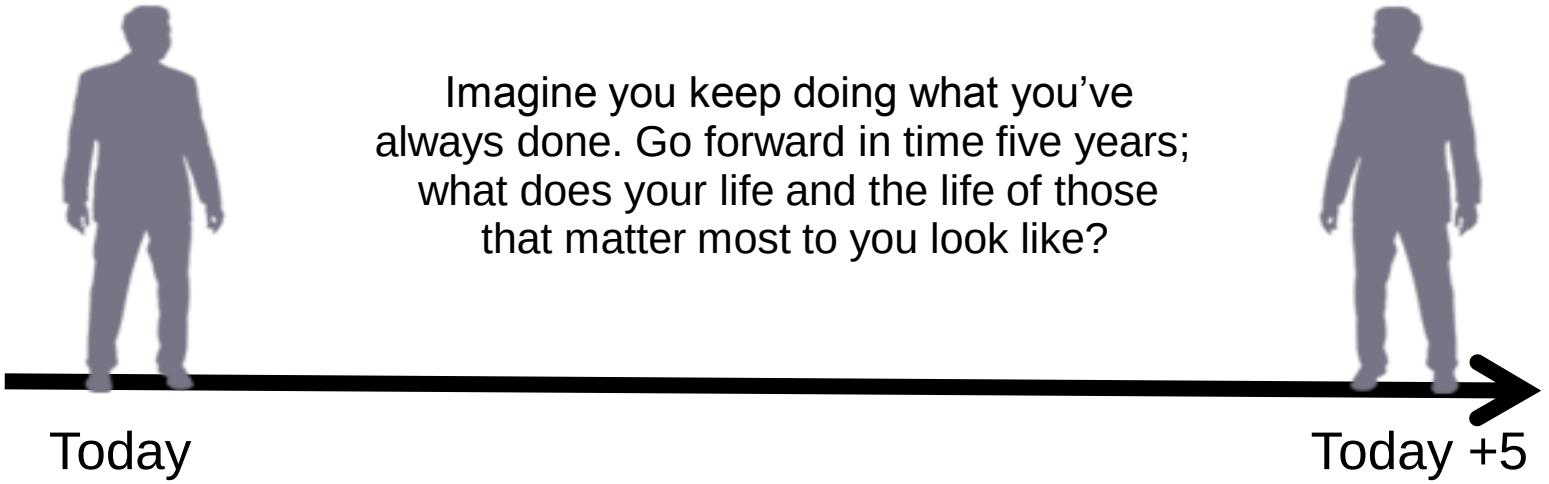
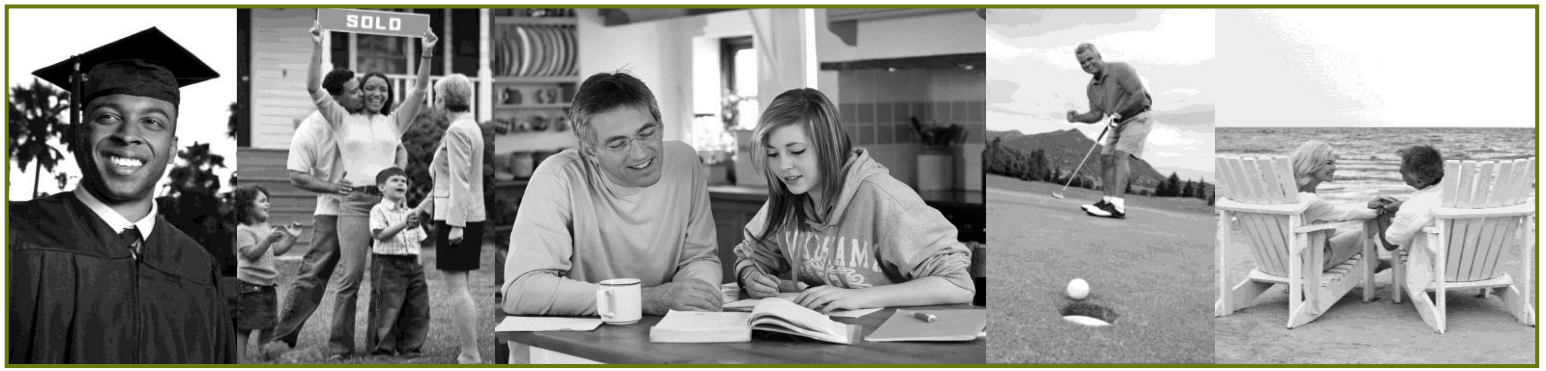
Exercise


Imagine you have decided that the Transition to Advisory is a “must do.” Go forward in time five years; what does your life and the life of those that matter most to you look like?
Today
Today +5


Imagine you keep doing what you’ve always done. Go forward in time five years; what does your life and the life of those that matter most to you look like?
Today
Today +5

Two Insights: The Foundation for Transitioning to Advisory

- Humans naturally and inevitably evolve over time and as wealth increases
- Investors' needs from their advisor increase with time and wealth



Early Accumulation | **Setting the Sights** | **Contending with Retirement** | **Transitioning and Distribution**

40s 50s 60s 70s

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“But How Can I Change the Way I Work with Existing Clients?”

- Just the thought of proposing a change to existing clients can stir profoundly negative feelings….

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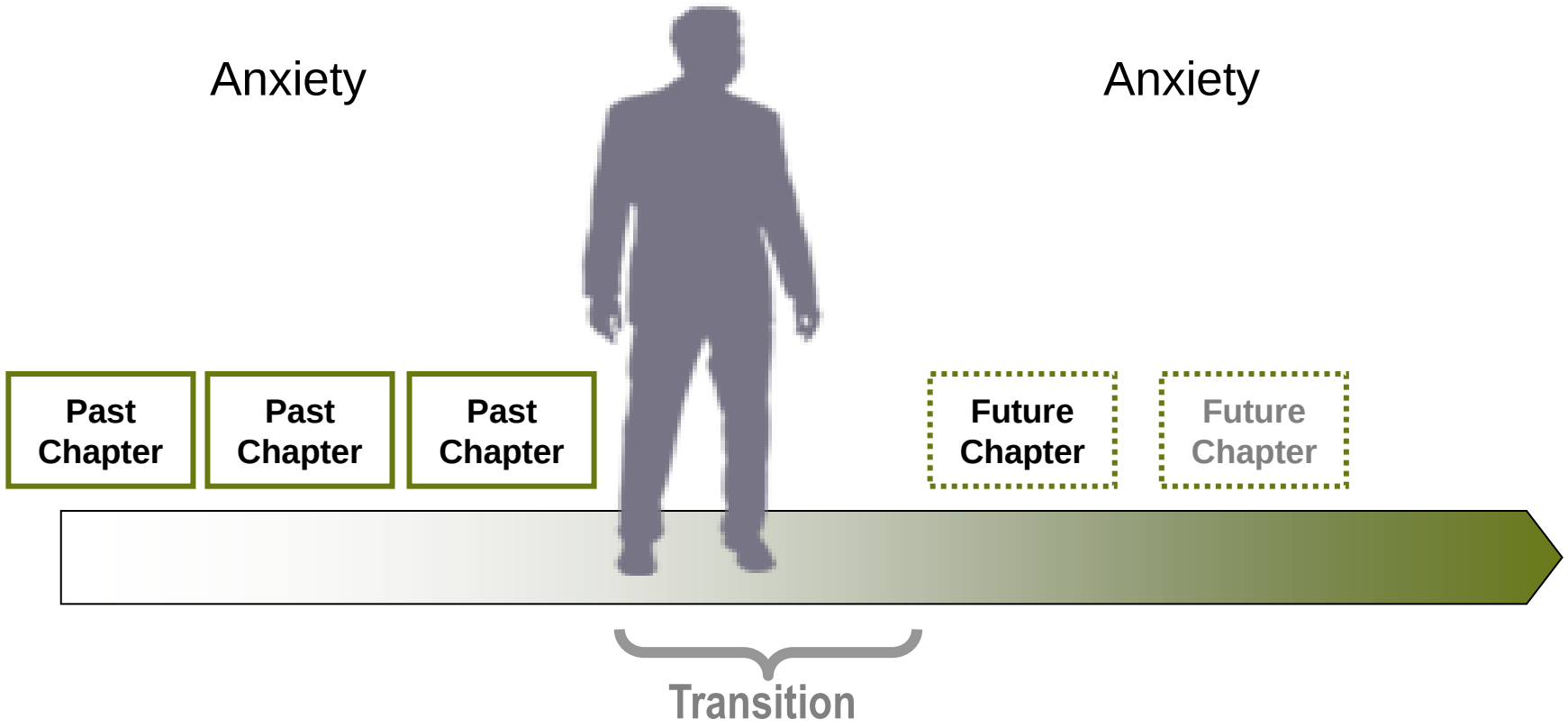
Understanding Human Behavior: Anxiety about the Future



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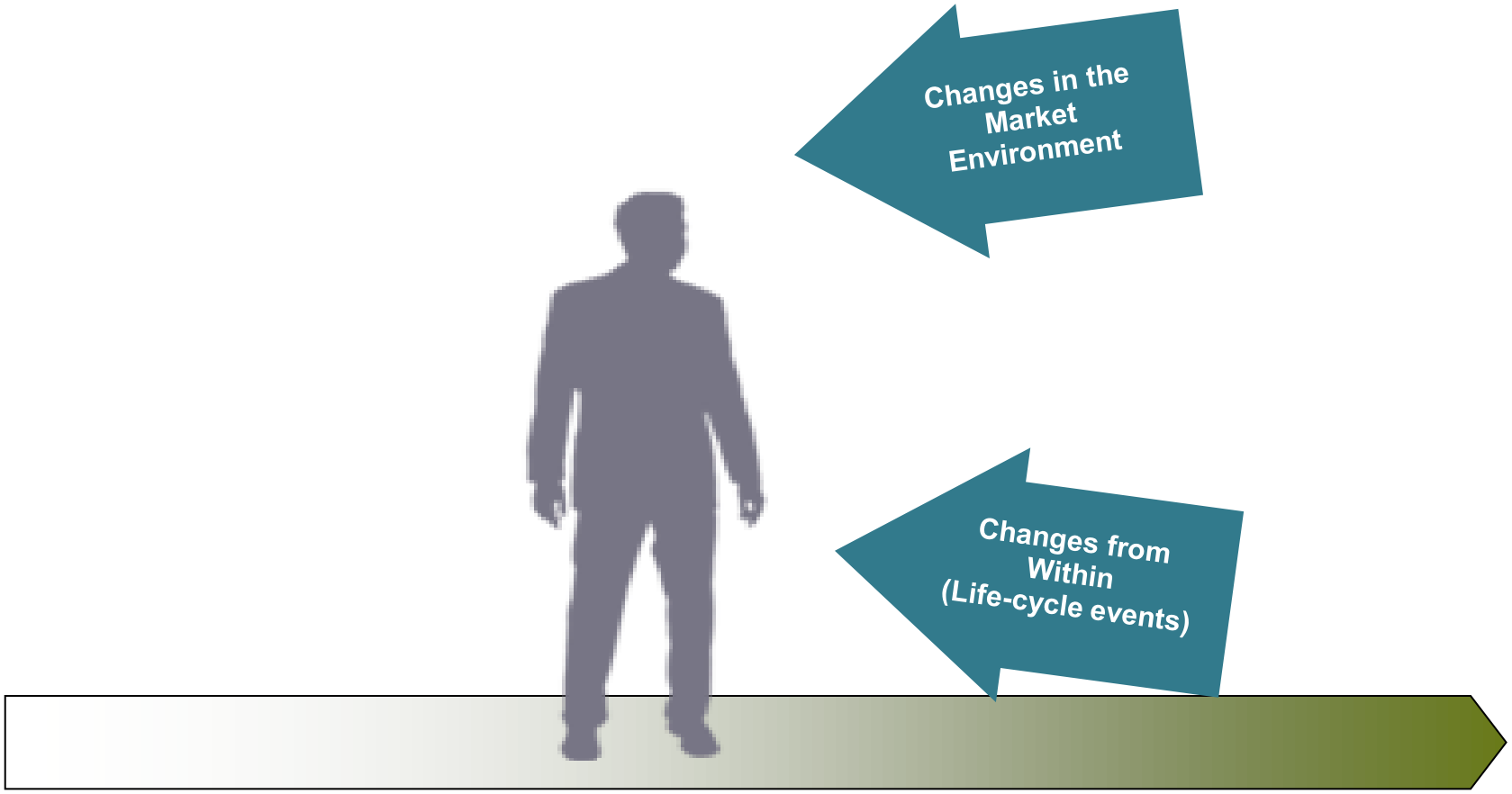
Framing "Why": Explaining "The Need to Change"



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Scripting the Conversation

Framing the "New Idea" because of changes in external market conditions:

- "Mr. Client, ***because of increasing volatility and challenges in market dynamics***, I am recommending the following to my clients…"

Framing the "New Idea" to address changes due to life events:

- "Mr. Client, ***you are about to experience*** an important milestone in your life, [name the milestone]. When clients in my practice go through this life transition, I recommend some changes in the way we do business together, because…"
- "Ms. Client, ***you recently experienced*** an important milestone in your life, [name the milestone]. When clients in my practice go through this life transition, I recommend some changes in the way we do business together, because…"

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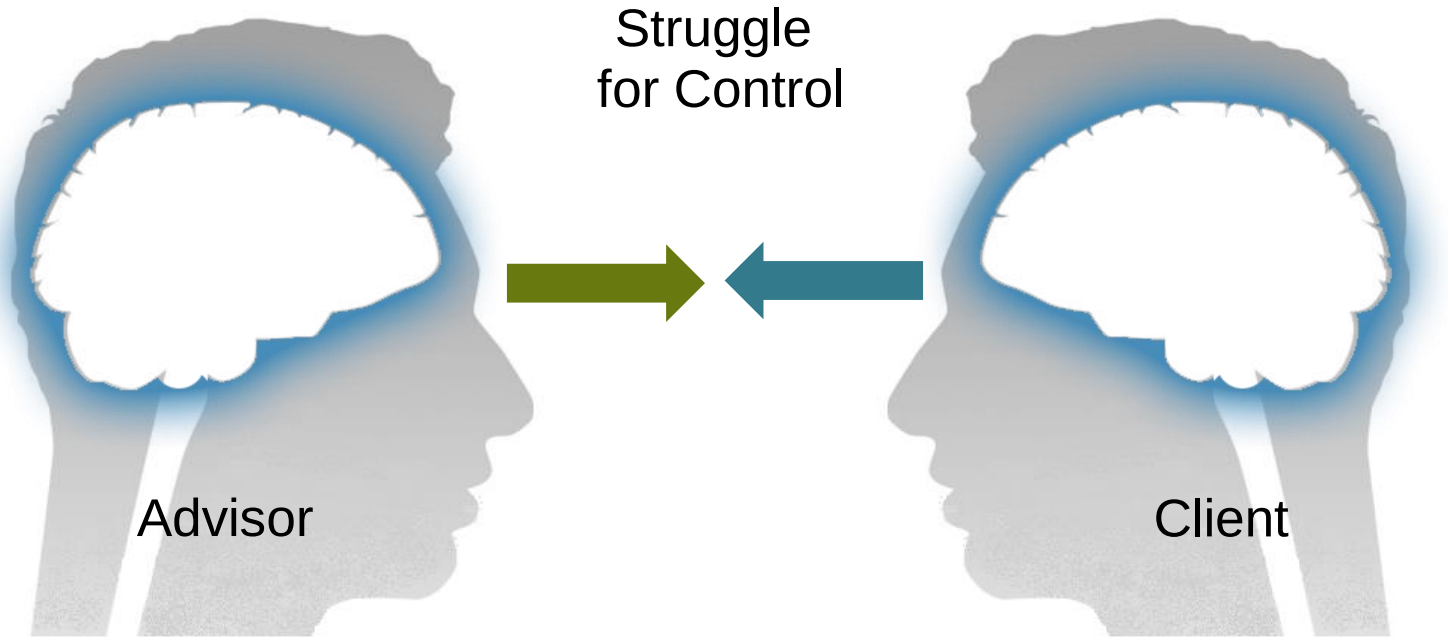
The Challenge of Advice: Constant Potential for Resistance



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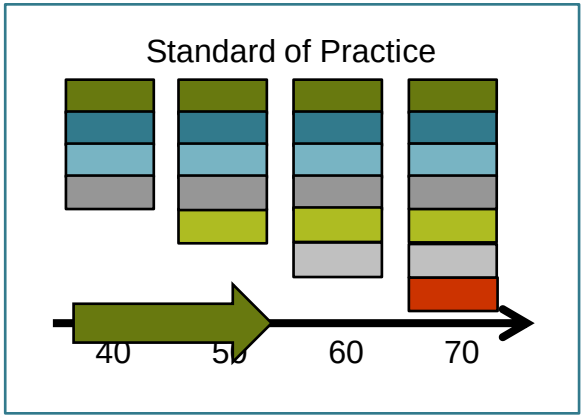
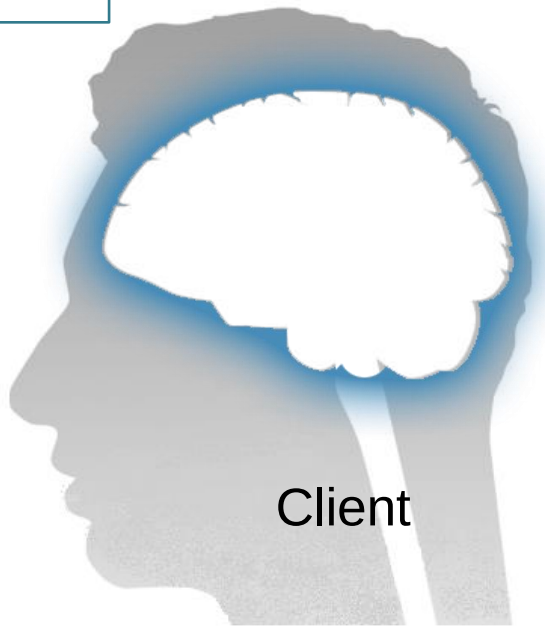
The Power of Clarity





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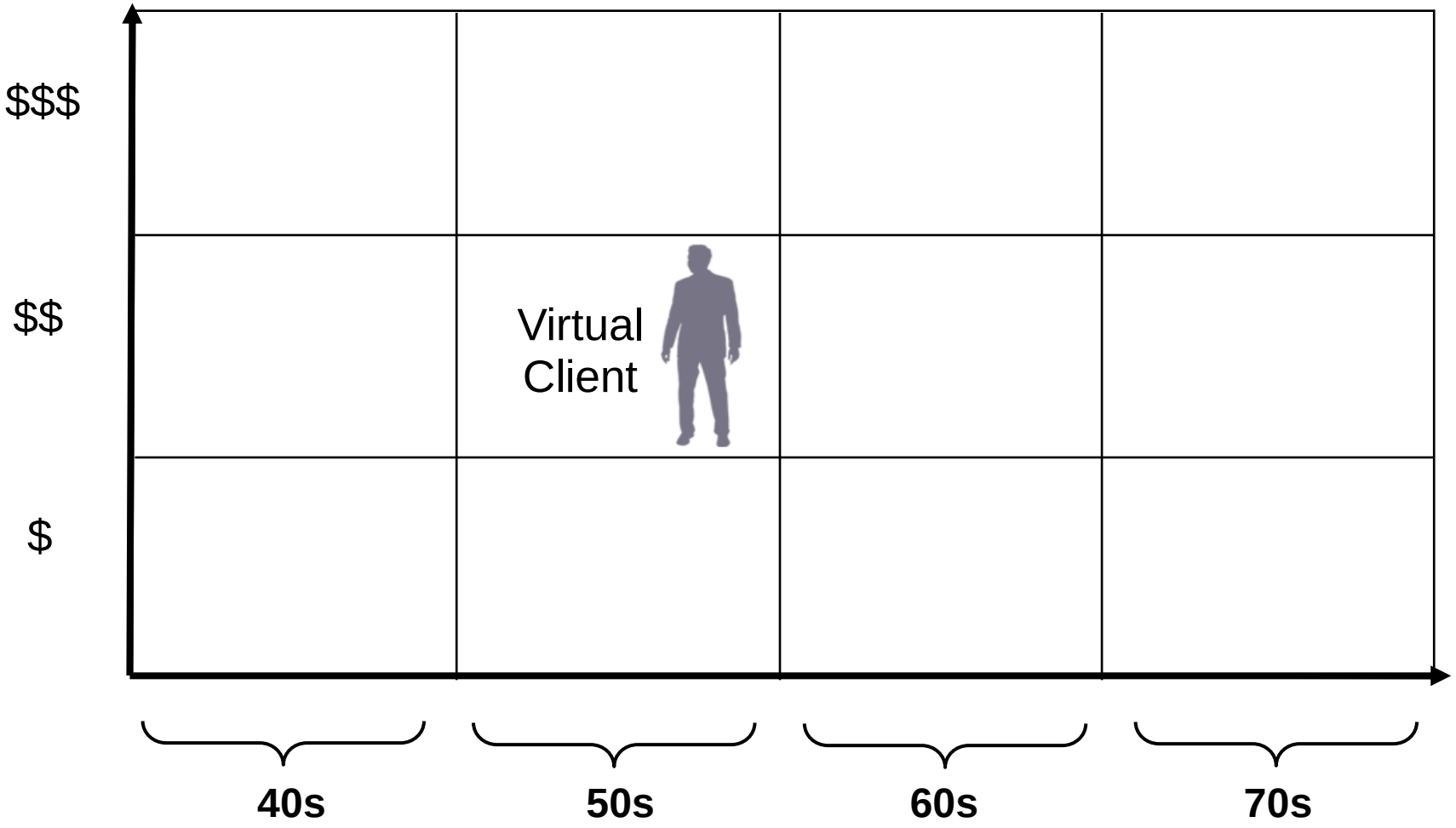
The Power of Clarity: Defining Your "Standard of Practice"



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20 Questions: What is Your Point of View On…?

For All Clients			
Discovery	Investment Goals	Minimal Plan	Comprehensive Financial Plan (Plan Module)
Asset Management	No Platform	Platform Without Discretion	Platform with Discretion
Communication	Basic Reporting	Regular Review	Client Relationship Management Plan

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20 Questions: What is Your Point of View On…?

For Most Clients	
Insurance Audit	Life
	Health
	Disability
	Long Term Care
Strategies	Estate Plan/Will
	Retirement Cash Flow Needs Analysis/Plan
	Guaranteed/Secure Income Strategy
Banking Needs	Credit Card
	Lending

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20 Questions: What is Your Point of View On…?

For Some Clients	
General Strategies:	529 for College Funding
	529 for Wealth Transfer
	Fixed Annuity
	Variable Annuity
Wealth Transfer:	Trust Strategy
	Family Mission Statement
	Family Financial Education Strategy
	Philanthropic Strategy

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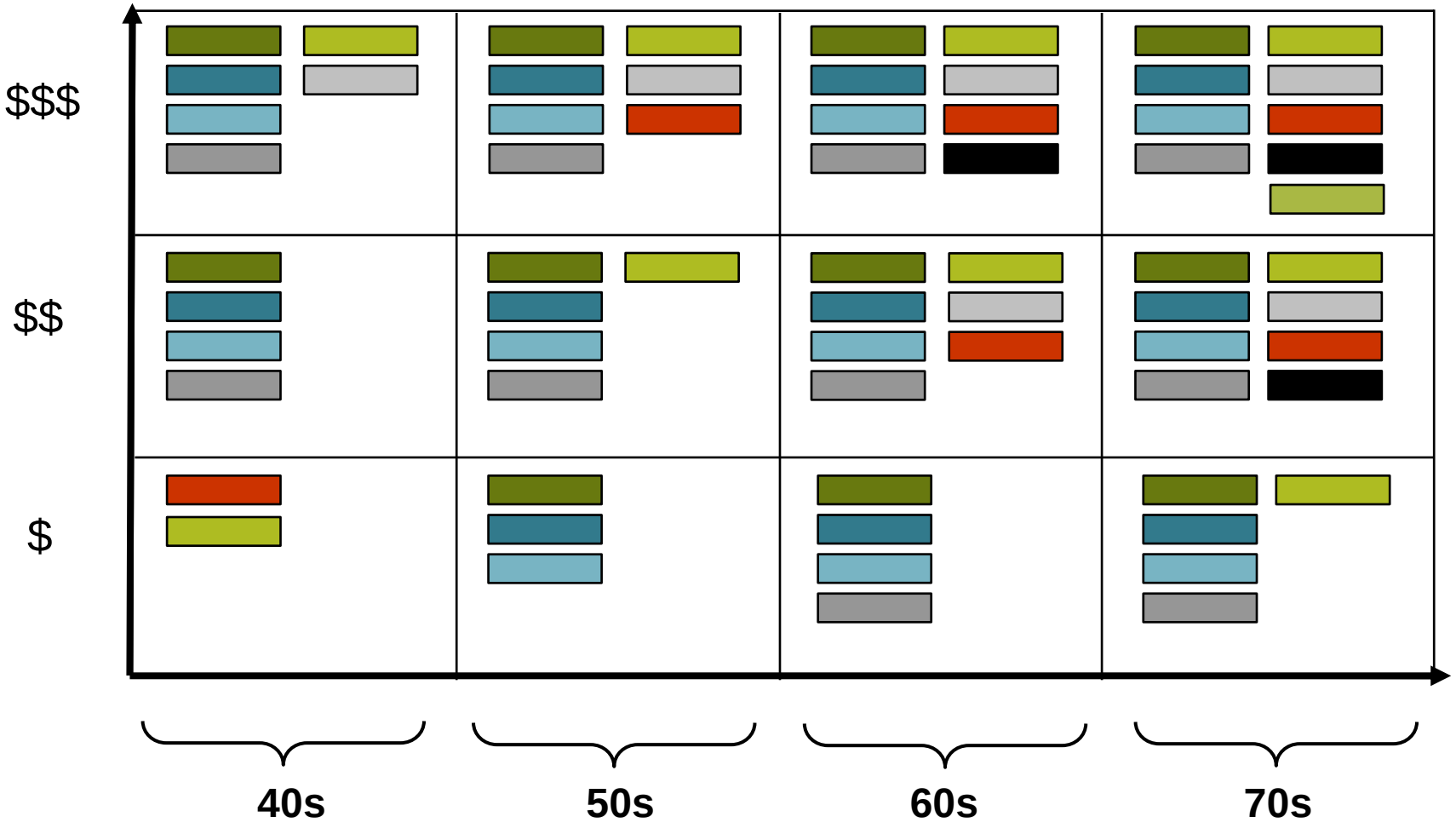
Establish Your “Standard of Practice” by Age and Wealth Level



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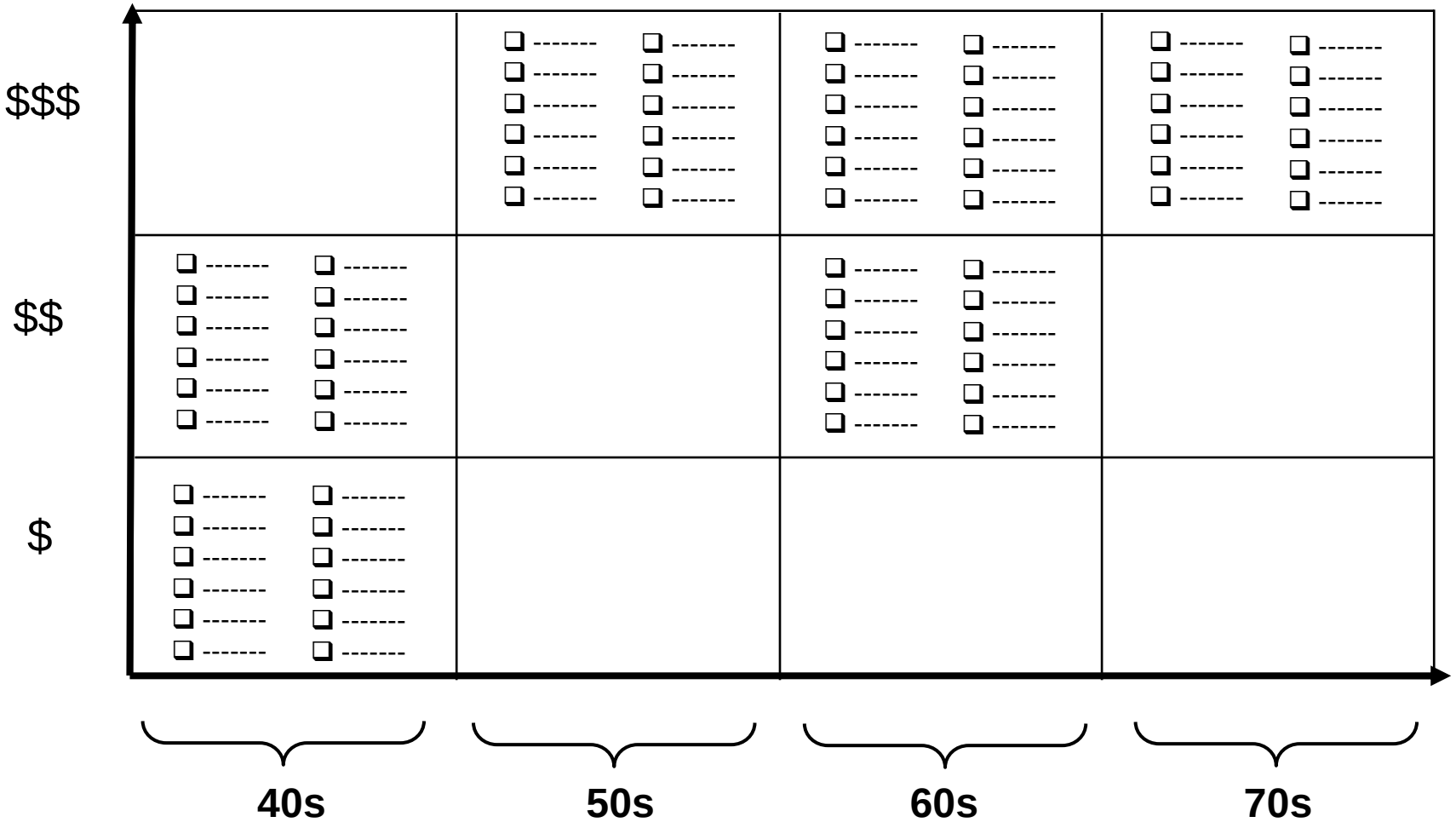
Populate the Grid: Organize and Target Priorities for Change



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Managing the Meeting

- Prepare for each meeting by reviewing client information and determining which “frame” to use
- Manage each meeting with an agenda and scripts

Preparing	**Framing**	**Profiling**	**Proposing**	**Closing**
Schedule appointment, script and pre-profile	“Need for change” and introduce the Standard of Practice	Visit goals, “the big picture” and locate other assets	Describe the new strategies and educate the client	Confirm plan and “this is what we need to do to get started”

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Execution: Your AllianceBernstein Wholesaler Can Help

- Week 1: Complete the "Must Do" Exercise

Make a one-year commitment: Set aside the same four hours a week to "work on your business"

- Week 2: Build your Standard of Practice (20 Questions Exercise)
- Week 3: Analyze your business (grid); determine roll-out priorities
- Week 4: Calendarize your roll-out; schedule individual and group meetings
- Weekly: Prepare for each meeting: which script works best for each client? What is the practice standard and range of services you will propose to this client?
- Manage the Meeting: Engage the client; introduce the advisory relationship; re-profile needs and explore goals (locate other assets?) and define new strategies

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