

# Wealth Management

November 2008

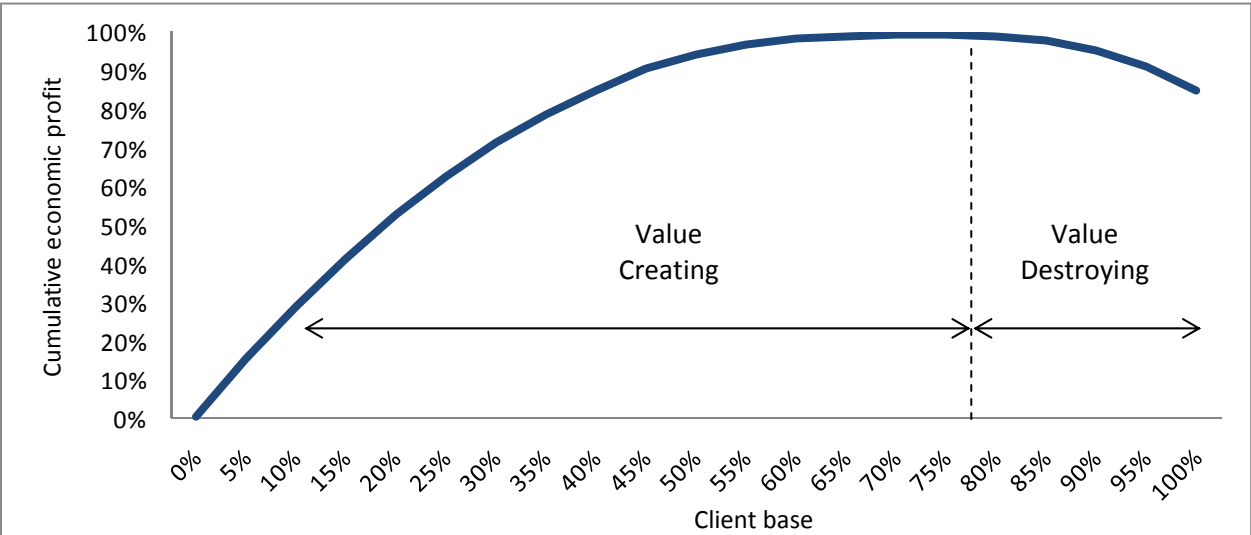
## 9 Strategies for Success in Volatile Markets

Over the past 3 months MDRC has been involved in strategic planning validation workshops for some of Europe’s leading private banks and private client wealth managers. The purpose of these workshops was to re-appraise the competitive strategy of the businesses and to lay the foundation of continuing success in what is likely to be an extended period of market volatility.

As executive management turnover in wealth management is relatively high and external recruitment is now the norm, there is relatively little “Corporate memory” at many firms. This strategy brief was prepared as a summary of the main strategic initiatives that have been adopted by the most successful private banks and wealth managers in recent years, and particularly in response to the last period of market turbulence in 2001-2002.

Summary
<b>1. Understand your competitive position</b>
<b>2. Formalise client retention</b>
<b>3. Client pricing and service tiering</b>
<b>4. Differentiate the offer</b>
<b>5. Ruthless activity management</b>
<b>6. Focused client acquisition</b>
<b>7. Identify client expectations</b>
<b>8. Measure client satisfaction</b>
<b>9. Control the client interface</b>

Figure 1 - 2007 UK wealth management client base profitability



## 9 Strategies for Success in Volatile Markets

- **Understand your competitive position**

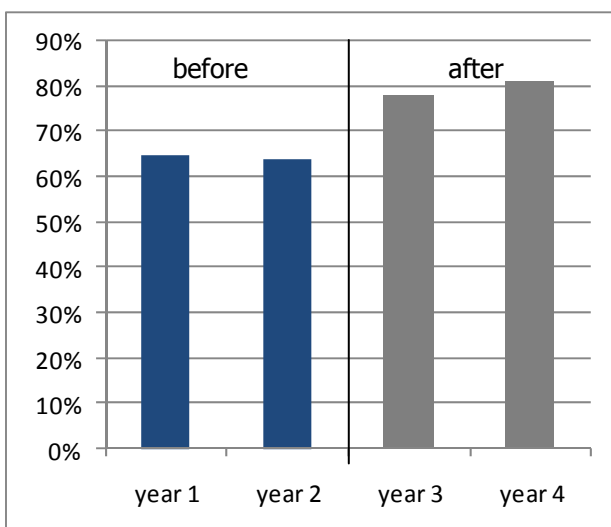
The best performing firms regularly undertake realistic assessments of a business's competitive position, not only in comparison with its current competitors but also in comparison with potential competitors and alternative business opportunities available to that firm. One difference between the most successful firms and their competitors is the rigour of this assessment. The best performing businesses are those that understand the consequences of changes in the competitive environment and have plans that allow the business to take advantage of competitors weaknesses.

- **Formalise client retention**

Arguably the simplest and most effective way of improving profitability is to retain clients and increase "share of wallet". Our wealth management practice has identified that a client retention programme increases share of wallet by an average of 16% in the 2 years following implementation.

Although most firms have systems for monitoring complaints, this is re-active and often fails to identify emerging areas of client dissatisfaction.

**Fig 2 - retention programmes increase share of wallet**



Establishing a client retention programme is a simple but highly efficient method of improving business performance.

- **Client pricing and service tiering**

Relatively few firms understand the profitability of their clients. As figure 1 shows, in 2007 only approximately 60% of wealth management clients were profitable (on a fully allocated basis), with another 25% generating little or no economic profit. 15% of clients were unprofitable and destroying shareholder value. The most successful firms are those that know who are their most profitable clients, why they are profitable and how much additional profit that client base could generate.

Segmenting the client base, tiering product and service levels and introducing different pricing models are all actions that improve the client experience and ultimately the firms performance. Clients will happily pay for products and services they value. Although a dedicated relationship manager is the foundation for client satisfaction, nevertheless different clients have different expectations of their wealth manager, and it is impractical for an organisation to meet clients' (often competing) demands. The more successful firms manage clients by allocating resources to those segments that demand or will pay for additional resources. Minor differences in product range, communication or delivery differentiation can often deliver substantial increases in client satisfaction when targeted on client specific requirements.

- **Differentiate the offer**

Although there are some advantages in following the strategies adopted by the rest of the industry, the most successful firms are those that strike out into a product area, a service offering or a market segment outside the mainstream. A smaller firm able to differentiate itself from its competitors by pursuing a market niche has a competitive advantage, particularly in a market dominated by very large businesses.

Firms that adopt a “Me Too” strategy rarely outperform their peers. During periods of market volatility, clients or potential clients are more likely to be open to products that offer a different approach to that available from “traditional” product models.

Although a “one-size fits all” may be an emerging trend - even in the most prestigious private banks - the most successful businesses are those that investigate what their clients’ want and then tailor the product and service delivery to meet those expectations. This approach brings higher revenues that more than offset any increases in operational costs.

- **Ruthless activity management**

The wealth management industry is not noted for its rigour in controlling costs, but there are exemplars where ruthless cost control and activity management has reaped spectacular benefits. The best performing firms are those that re-engineer rather than re-organise to drive down costs, and have no qualms about the business activities that should be subject to scrutiny.

- **Focused client acquisition**

A number of studies over the past 8 years have shown that focusing on a few key segments is likely to bring greater profitability than attempting to capture clients from across the whole market. In an industry as diverse and as complex as private client wealth management, it is often perceived to be too difficult to attempt anything other than general tactical marketing. The most successful businesses are those where marketing strategy and brand development are targeted to support business development in the firms’ chosen markets and segments.

- **Identify client expectations**

Most organisations have some belief that they understand their clients, unfortunately this belief is frequently based on “folklore” rather than any structured assessment. With the sharp changes in HNW demographics seen in recent years, relying on “experience” or information gathered in the

past has become little more than guesswork. Carrying out systematic and structured analysis of the client base, and identifying what clients expect from their wealth manager is a pre-requisite step to improving client satisfaction. This analysis also permits the organisation to improve segmentation of the client base into groups of individuals with similar needs and expectations.

- **Measure client satisfaction**

Having established what clients expect from the organisation, the most successful firms measure clients’ views on how well the organisation has performed or is performing against those expectations. There is no “right” time to start gathering data, organisation frequently delay measuring client satisfaction because of internal changes that are expected to improve products or services, but without some data on client satisfaction many of these may be counter productive. Ideally, some degree of external benchmarking of satisfaction is desirable to identify the strong and weak elements of the product and service mix, but the minimum should be measurement of client satisfaction on a regular basis to identify emerging trends.

- **Control the client interface**

Standard industry practice suggests that the preferred method of managing the client experience is regular communication between client and relationship manager. However, the relationship between the client and the relationship manager is also the most common source of client discontent. Where the relationship manager is also unhappy with the organisation relying on this conduit for managing the client experience is unlikely to prove satisfactory.

However, industry best practice introduces an alternative direct method of client/firm interaction and allows the firm to be proactive in managing the client - as well as taking some of the potential stress from the client and relationship manager. However, this communication conduit should be managed with care and sensitivity.

MDRC (Market-Dynamics Research & Consulting Ltd) is a management consultancy dedicated to maximising value to its client firms. MDRC delivers high value solutions through small, experienced teams working with clients in the pursuit of innovative solutions. MDRC's core skills are in strategy consulting, marketing and product development, client retention, and strategic research.

MDRC's areas of interest are the high net worth (HNW) markets in Europe, particularly the UK, and the wealth management, private banking, insurance and investment business that seek to serve high net worth individuals. Our clients range in size from the largest US and European Banks, to businesses with fewer than 10 employees. We undertake a wide range of client specific assignments using well-established value based frameworks. The MDRC team provides our clients with cost effective support and assistance in practical strategy formulation and implementation.

To support our work in the EU HNW sector we have developed unique market models for all of the 27 countries in the EU, with a knowledge base derived from conversations with many hundreds of high net worth individuals each year. These individuals come from a broad spectrum of behavioural segments, risk appetites and wealth values. The MDRC market model and knowledge base provides a very accurate proxy for the EU HNW market.

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