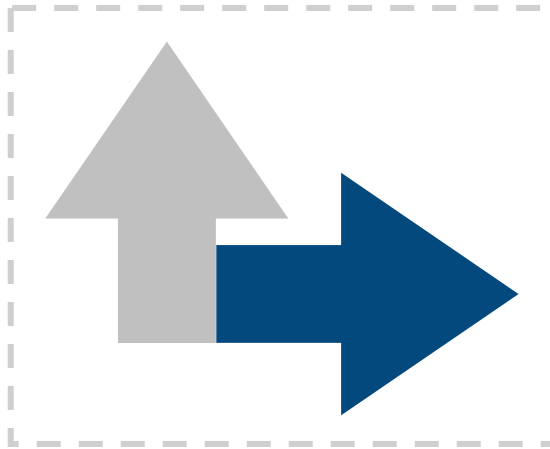




Client Segmentation



Advisor Impact
641 Lexington Ave, 14th Floor, New York, NY, 10022
56 The Esplanade, Suite 211, Toronto, ON, M5E 1A7
Phone: 877-686-0660
Email: info@advisorimpact.com

Client Segmentation

This overview is designed to help you provide you with an action plan to segment your clients, based on the overall value they bring to your practice.

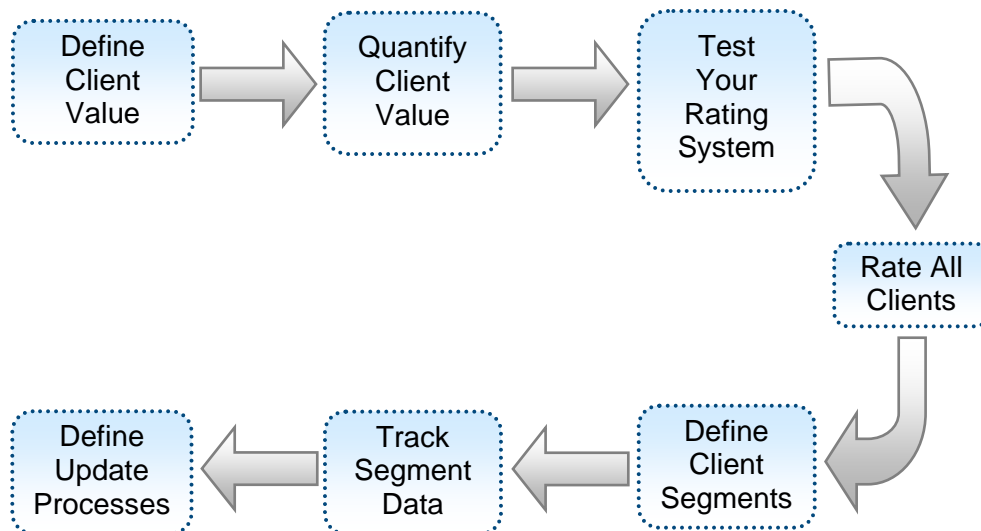
The Context

Client segmentation is a first critical step toward greater practice efficiency and, ultimately, improved practice profitability.

Industry research suggests that profit margins are declining in the average practice, a trend with serious implications for the long-term success of many financial advisors and the potential value of the average financial advisory practice. One way in which advisors can focus on improving the profitability of client relationships is to ensure that there is a direct link between their investment in client relationships (both of time and money) and the value of those relationships. Client segmentation is the first step forward. On the following pages, you'll find a step-by-step guide to helping you segment your clients in a way that will not only reflect real client value, but will reflect the goals and objectives of your business.

The Segmentation Process

The process of segmenting your clients can take time, however the system is very easy to maintain once the initial segmentation is complete.



1. **Define client value.** Identify the drivers of profitability, or value, in your client relationships.
2. **Quantify client value.** Create a rating system to gauge each client on each driver of value.
3. **Test your rating system.** Rate a subset of clients, in order to test the suitability of your rating model.
4. **Rate clients.** Rate each client, on each driver of value, and then sum those ratings to generate a composite 'value rating'.
5. **Define segments.** Create scoring ranges that link your composite scores to a segment (e.g. a rating of 35-40 may be a platinum client)
6. **Track segmentation data.** Enter each client's segment in your contact management system.
7. **Define update processes.** Create processes to update client segment ratings and to rate new clients.

By working through this process you will be in a position to increase the profitability of client relationships, by linking client value to client service. If you do not segment your clients, you run the risk of over or under-servicing clients and that can result in lost opportunity, lost time and lost clients. In addition, you can use segmentation data to streamline and automate the service delivery process more effectively.

It is important to remember that segmentation is not an end in itself. It is only helpful if linked to the client service process. Structuring effective service plans is the subject of another Advisor Impact workbook, however you can use the results of your client segmentation, to differentiate the service you provide in four key ways:

- total number of proactive reviews per year
- form of contact (face to face vs. telephone vs. e-mail)
- responsibility for contact (advisor vs. junior vs. licensed assistant)
- investment in the client relationship (e.g. spending on client appreciation)

Step One: Define Client Value

Start the segmentation process by identifying the drivers of profitability in your client relationships. You can select from the list provided on the next page or add your own drivers.

Tips:

1. The unit of analysis is the client household, unless there is a compelling reason to treat a couple as two distinct clients.
2. Focus only on the core drivers of value, using a maximum of four or five dimensions.
3. Clearly define the meaning of each dimension for your practice.

The dimensions in bold typeface are recommended. Choose a maximum of four to six dimensions that drive value in your client relationships.

- Assets under administration**
- Commissions or revenue in last 12 months**
- Future potential (e.g. income, inheritance or cross-selling opportunities)**
- Referrals provided in last 12 months**
- Time required to service**
- Personality (e.g. difficult or easy to deal with)
- Part of key target group
- Center of influence
- Related to a top client (and therefore more valuable than assets might dictate)
- Other _____
- Other _____
- Other _____
- Other _____

Tips:

1. [Number of dimensions](#). If you select too many dimensions, your rating system will be less effective. All clients will tend toward the middle and you will not achieve the differentiation you are seeking.
2. [The 'personality' dilemma](#). If you rate clients on personality (the extent to which you enjoy dealing with them), you may make a bad situation worse. A lower rating will result in less contact and less contact can make the client more difficult. You may want to treat 'personality' as a way of gauging whether you work with a client, rather than including it in your segmentation model.
3. [Timeframe](#). Create a model that supports your long-term goals for the practice, not necessarily one that reflects your client base, today. You do not want to have to lower a client's rating, in future, simply because you have attracted better clients. Some advisors will have no top priority clients because they are relatively new to the business.

Step Two: Quantify Value

With your drivers selected, you can now create a rating scale for each dimension. An example is provided below.

Tips:

1. Choose a minimum of two levels and a maximum of five levels for each driver.
2. You can use both quantitative definitions (e.g. \$100,000 - \$249,000 in assets) or qualitative definitions (e.g. substantial potential).
3. You can take points away from a client (e.g. a client that takes too much time to service relative to his or her value).
4. Once the scoring system is finalized, weight each dimension by adjusting the maximum score. The higher the maximum score (relative to the other drivers), the more important the driver is to your practice and the greater the weight it will receive in the overall score.

Step Five: Define Segments

With your ratings complete you can link the total scores to client segments by establishing ranges. For example, a total score of 35-40 might represent an 'A' client, however these ranges will differ for each advisor. It is recommended that you split clients into four or five distinct segments, for example:

- A+ clients (the drivers of the practice)
- A clients (the top priority clients)
- B clients (the high potential clients)
- C clients (the average clients)
- D clients (the low priority clients)

Once you have determined the score ranges for each segment, these will be used to rate all new clients coming into your practice as well. The specific way in which your scores link to client segments will depend on your practice.

A typical book will break down in the following manner:

- A+ Top 2%
- A Next 18%
- B Next 10%
- C Next 50%
- D Next 20%

Once you have calculated your ranges, enter them in the table below as a reminder.

Segment	Range	
	Minimum total score	Maximum total score

Step Six: Link to Contact Management System

Even though you have rated all of your clients and put them into segments, there are two final steps that will complete the process. Without these last two steps, your system may break down over time. To start, you should create a field, in your contact management system, and enter the segment for each client. You do not need to enter individual ratings on each dimension, just the final segment. This will allow you to run 'filters' or 'look-ups' by client segment. You will also use this information to help you structure a more efficient and streamlined client service plan.

Step Seven: Create an Update Process

Once you have invested the time and effort to segment all of your clients, the process can be easily maintained. You should never need to rate all clients in this manner again. In order to ensure that your rating system is up to date, however, you will need to establish two processes: one to update the ratings of existing clients and the second to rate new clients.

In order to keep your ratings up to date, simply build a segmentation review into the annual plan or portfolio review. If you meet a client more than once a year, you only need to focus on segmentation ratings in one of those meetings. Add a few minutes to the end of the meeting and review the client's ratings to determine if there have been any material changes. A change in one driver may or may not change the client's segment.

All new clients should also be rated and included in one of your segments. It is critical that every client be in a segment and that that segment be noted in your contact management system, otherwise some clients will fall through the cracks. Rate new clients based on available information at the time. If you do not have adequate information, at the outset of the relationship (e.g. referrals provided), give the client a baseline rating and then increase the rating over time.

Going Forward

Once you have completed this process, you will have made an important step toward increased practice efficiency and profitability. Next you will want to clearly define what it means to be a client in each segment, with respect to direct contact or other client communications.