DURAND CAPITAL PARTNERS

Client Retention:

Why Clients Leave Advisors and Ways to Ensure They Stay

While you're focusing on growing your business by signing new clients, don't overlook one of the most important keys to growth — client retention. It's not just about getting clients in the door and selling them on your services. Maintaining effective, long-lasting relationships is just as important.

A 2% INCREASE in customer retention has the same effect as DECREASING costs by 10%[1]

A 5% INCREASE in customer retention can INCREASE profits by as much as 95%[1]

Advisors Face a Real Customer Retention Challenge

You may have heard how the first few years are the most crucial when it comes to client retention. We analyzed the data, and we've confirmed that this is indeed true: the first two years is where the battle for client retention is won or lost. On average, of those clients who leave an advisor, **20% leave within the first year and 25% leave within the second year.[2]**

This means it's extremely important for advisors to focus on how they can retain clients in the first two years — things like ensuring clients don't feel neglected, reassuring them in their buying decision, answering all their questions as they come up and generally growing the relationship. A lot of this rests on you setting the right expectations from the start and then following through.

Why Do Clients Leave?

While performance is certainly important, you might be surprised to find out that it's not the most important factor. According to a study conducted by The Spectrem Group, the four most highly-cited reasons that investors worth between $1 million and $5 million leave their financial advisors are service-related, with performance coming in fifth.[3]

1. The advisor doesn't promptly return phone calls (**61%**)
2. The advisor isn't proactive about contacting the client (**53%**)
3. The advisor doesn't provide good ideas and advice (**48%**)
4. The advisor doesn't return emails in a timely manner (**46%**)
5. The advisor is under-performing compared to the overall stock market (**36%**)

5 Ways To Ensure Your Clients Stay

1. Excellent Customer Service

It's impossible to understate the importance of good customer service. Bad customer service is actually the main reason for customer churn in any industry — as hundreds of different surveys and studies will tell you.

When talking about good customer service, it really comes down to one big question: Do you make your clients feel valued? Everything else is an extension of that. Responding to emails and phone calls promptly is a sign of valuing your clients' time and caring about their questions. Making an effort to provide your clients with good ideas and advice indicates you value them as clients and want them to succeed. Communication is key to making clients feel valued and satisfied with their relationship with you.

So what can you do to improve? Review your current service model and see if there's any room to provide a better client experience. Consider regularly sending out emails about the latest news or trends that may impact your clients. They don't have to be long emails. Even short ones with a link to a good article show you're always staying up to date and care about making sure your clients do, too. And how often are you reaching out to your clients or meeting with them — and would they prefer it to be more frequent? When in doubt, simply ask. They'll appreciate you asking for their opinion.

Perhaps it's even a matter of investing in a more robust technology. After all, if you can automate more back-office tasks and become more efficient, you can free up time to spend on client service.

2. Risk Management Suited to the Client

Thirty-one percent of millionaire investors said they'd leave if their advisor didn't understand their risk tolerance. Good risk management is crucial to a long-lasting client relationship, and it comes down to the ability to effectively manage expectations and emotions. The best advisors know how to effectively steer a client's thoughts and emotions when it comes to major financial decisions — but they also know how to listen.

Before you suggest anything to your clients, talk to them and make sure you truly understand their risk tolerance — and take that into account when explaining your investment process and the associated risk involved. And if any client wants to change investments, your first step should be to go back to the client's risk tolerance. We recommend investing in a technology to help with such a function. This will help to ensure you build portfolios that always contain just the right amount of risk for each client.

A lot of it also comes down to psychology. Set the right expectations and always continue to communicate with your clients. If there's a sudden market fluctuation, for example, your risk-averse investors will probably need to hear from you. Risk management is a process that goes much beyond initial portfolio creation.

3. Deeper Connections

Thirty-two percent of respondents said, "The advisor only talks about my investments and not my overall financial situation." Think about it. Someone is making a very important, potentially long-term commitment when choosing an advisor. It's a decision that could deeply impact an entire family's life, and every investor wants to feel like their advisor cares about that. It's not just about numbers and returns — but about real people and their futures.

So does showing you care about a client's overall financial situation help client retention rates? The data says yes. According to PriceMetrix, advisors are 9% more likely to retain clients who have multiple retirement accounts than those who have no retirement accounts.[4]

We're not saying you have to immediately become a financial planner or open multiple retirement accounts for every client. What we're saying is that these are the types of things advisors do to build deeper relationships and form more personal connections with their clients — and you should endeavor to do the same. Seek out ways to play a bigger role in every investor's life, starting with something as simple as your attitude. Ask about their families more frequently. Find out about their life goals. Give advice where appropriate. Help them plan for the future. Sometimes, it's as simple as just showing you care about more than just their money.

4. Flexibility

It's not enough to just offer more in terms of planning for the future. It's important you take the time to find out what else your client wants and needs, and then be flexible to accommodate that. Make sure you're always asking questions in order to provide the right mix of services. Could some clients benefit from added services like tax planning or estate planning? Do your wealthier clients need something different from those not as wealthy?

For example, wealthy clients tend to demand greater control over their assets. They keep more money in discretionary accounts than retirement accounts (relative to the rest of the population), and they spread their money across multiple advisors. They might not be as interested in a typical mutual fund, but rather creative asset classes that help diversify risk. This means you need to be flexible and provide your wealthier clients with things such as more sophisticated services, a wider range of strategy options, and more detailed performance reports.

5. The Right Pricing

Review your pricing because you could be pricing your service too low or too high. The key here is to show that you're providing the greatest value — not the cheapest price. So if you're pricing your services too low, you may be giving the impression that your services don't provide as much value. But we also know no one likes high fees (and you may be creating insurmountable service expectations with them). So the key is to find the sweet spot.

According to PriceMetrix, households that are priced relatively low (below 0.5%) or relatively high (above 2% for overall) are less likely to be retained, and retention is highest in the 1-1.5% range.[4]

Bottom Line

Service and communication matters greatly. In fact, our research shows that these items matter far greater in terms of building solid, long-lasting relationships with clients than performance. At Durand Capital we strive to provide materials and information to our partners that can best assist with building these relationships. If there is anything we can do to improve your retention rates centered around the information provided, please do not hesitate to get in touch.

Sources:

1. Bain & Company, “Closing the Delivery Gap,” 2005
2. Trust Company of America’s survey of its RIAs, 12/31/15
3. Spectrem Group, Millionaire Corner, “How Financial Advisors Can Keep Their Millionaire Clients,” 2014
4. PriceMetrix Insights, “Stay or Stray: Putting Some Numbers Behind Client Retention,” December 2013