

# Practice Lifecycle

The indispensable practice management tool for advisors

## Concentrate on the 20 Percent That Counts

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What percentage of your revenue comes from the top five percent of your clients? When you segment your client base, the results are often surprising. Some advisors think as little as 10 percent of their revenue comes from their best clients. In reality, your top clients probably generate 25 percent to 30 percent of your revenue.

Take a look at your practice. It likely conforms to Pareto's Law: 80 percent of your revenue coming from 20 percent of your clients. It follows that the top five percent of your clients produce a large percentage of that revenue.

You intuitively emphasize what has worked in the past:

- When a marketing activity brings new clients, you emphasize that activity and eliminate activities that do not produce results.
- When a financial concept resonates with a client, you use it and avoid concepts that have no impact on clients.

Yet when it comes to clients, some advisors offer everyone the same service. Approach client service the way you approach any other business process; focus on what works. If 80 percent of your revenue comes from 20 percent of your clients, focus your efforts on serving those clients and on finding more clients like them.

Of course, you have a relationship with your clients and it does not feel right to abandon clients like a failed marketing idea. Everyone in your client base should receive the service they need. Fortunately, clients with smaller, simpler situations will generally need less time.

When clients listen to you, when they bring you assets, when they are inclined to save... spend time with them. The purpose of segmenting your client base is to help you:

- Identify your best clients so you focus on them more fully
- Understand your best clients so you can serve them more effectively
- Profile your best clients so you can clone them more easily

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Once you identify your best clients, you will find commonalities among them. The common theme could be their advice needs, industry of origin, investment approach or hobbies. It might be legacy planning, your client education, the interests you share or the agenda you prepare. It may also be two or three of these things. Emphasize the threads in structuring and promoting your practice. Once you have found some common threads with your best clients, you can profile these clients and describe them to referral sources. If you know what you are looking for, it is much easier to find it. Think back to your last car purchase. Once you identified the car you wanted, did you see many more of those cars on the roads? When you know what you want in a new client, you will find more clients just like the ones you already have.

## How to Segment Your Clients

In segmenting your client base follow this step-by-step approach:

1. Begin with a spreadsheet listing your clients, their assets under management (AUM) and their gross revenues.
2. Sort the list by AUM.
3. Calculate total AUM, total revenues and the number of clients.
4. Separate the clients into four segments:
  - a. The top five percent (percentiles 1 through 5)
  - b. The next 15 percent (percentiles 6 through 20)
  - c. The next 30 percent (percentiles 21 through 50)
  - d. The final 50 percent (percentiles 51 through 100)
5. For each of the segments, calculate and subtotal AUM and revenue.
6. For each of the segments, calculate the percentage of AUM and revenue to the total.
7. For each of the segments, calculate the average AUM and revenue per client.

## A Real Example

In [this example](#) of segmentation, six percent of the clients produce 24 percent of the revenue (numbers are rounded).

Of the 58 clients with more than \$500,000 in assets, 21 clients came from two companies. From this analysis, we prepared a list of services that serve the employees of these companies well. We created a profile of these clients and identified ways the practice could differentiate itself in the market. We created a marketing plan that focused on acquiring more clients like the best ones in the

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current practice.

Just as important, we met servicing needs of the other client segments. The strategy is to gradually assign clients who do not meet their profile to junior planners -- planners who can devote the time needed to serve the clients' needs. Yet the junior planners and their clients can tap the expertise of the senior planners when needed.

## Summary

Whether you use less expensive staff to provide service or reduce the complexity of the services you provide, your goal is to meet the needs of lower-AUM clients through services that are profitable based on their revenue. Likewise, you want to meet the needs of your clients with more AUM through services that are profitable (but not excessively profitable) based on *their* revenue.

Advisors run their practices in many different ways. Some provide asset management to clients with less than \$25,000 and some will not accept a client investing less than \$5,000,000. Segment your clients into categories based on your practice but do segment your clients. Do not complain about clients who demand excessive service if you have not defined services that are appropriate for the revenue generated. Likewise, devote appropriate time and resources to your best clients based upon the revenue they generate.

By segmenting your client base, you can clearly see the value your best clients provide. With that knowledge, you can refine your service model and your client profile to concentrate on the 20 percent of your practice that counts.