THE TRUST EQUATION

The ultra-rich are an obvious target for banks and insurers, but research suggets that advisers don't gain the trust of this group because they fail to understand customers expectations and motivations. Jim Taylor and Andrew Sacks explain.

The way significant wealth is created, accumulated and managed is changing. The process of wealth generation – who has the money, how they amassed it, and the way they handle it – has changed dramatically in the United States. These shifts are now beginning to be seen worldwide.

The transformation began with the way fortunes were built. Fortunes typically arise out of an individual's capacity to develop an idea, attract a team of loyal adherents, demonstrate market viability, attract capital and put the idea into the market. In other words, we are now seeing a real emergence of entrepreneurial wealth and, with it, the triumph of middle-class values – the cornerstone of the entrepreneur's motivation and strength of character.

Fortunes are built by those consumed by a sense of personal empowerment, customer entitlement, and employee empowerment. Bringing these attitudes to their businesses, they also communicate them to the financial advisors who manage their fortunes. This essay derives its observations from both the Worth Harrison Taylor *Study on the status of wealth in America* and a second, separate study conducted with the help of AgencySacks[1], in which we asked luxury marketers to predict how the wealthy would respond to the questions posed in the first study.

We will not dwell here on the data, but rather concentrate on what lessons the studies have for luxury marketers wishing to play a role in the financial lives of wealthy families by serving as stewards of this new entrepreneurial wealth. The research demonstrates that new wealth comes with a set of expectations that challenge the way financial services providers have historically served customers. Bottom line: there is a new world out there, and it calls for a different perspective on the basic question of trust.

The observation that the financial services industry is in something of a trust crisis is not new. This topic has been covered extensively in recent issues of *Argent*. Phillip Williamson[2], for example, argued that loss of trust in industry can be attributed to a combination of scandal, unreasonable account returns, a generally-difficult risk environment, and the failure of service providers to offer value-based products and superb service.

Surprisingly, the challenges faced by marketers and service providers have more to do with the changing face of the customer than the changing nature of services provided. In a recent study conducted by the Harrison Group,[3] we found that the past thirty years have witnessed a tectonic shift in the nature of wealth itself. It therefore behoves marketers to consider how these changes in the nature of the wealthy family affect their financial services businesses.

The study

In 2004, we decided to undertake a syndicated study of the very top of the American economic food chain.[4] Accordingly, we carefully developed an interview and quantitative questionnaire that examined the respondents' lifestyle choices, family structures, wealth management practices, consumption, and attitudes towards the experience of living with abundance.[5]

Essentially, the sample consisted of 500 American households with a minimum of $5m in liquid assets. The average net worth per household came to nearly

$28m, and ranged between $5m and $11 billion. Three-quarters of the respondents served, or are serving, as heads of their own businesses, with the majority of these having founded and built the companies they lead. The sample generalizes to the top 1/2% of American households, a group that collectively possesses nearly $22 trillion in fixed and liquid assets and consumes at a rate of about $650 billion a year. The average respondent has $1.9m in household income and, it is estimated, spends more than $800,000 a year on consumption.

For the record, the respondents agreed to participate because they were promised that we would tell their story. Without doubt, their interest in the study was powered by their concern that the rising tide of public outrage at corporate scandal could affect their hard-won economic independence. In addition, respondents were given the opportunity to contrast their lifestyle with that of the entire sample.

The rise of the new entrepreneur

Some sixty years ago, there was a company in Palo Alto, called Shockley Labs. Named for the physicist who co-invented the transistor, it became a test-bed for the emerging field of electronics. Shockley led, directly or indirectly, to many of America's technological giants. Amongst these have been Apple, National Semiconductor, Hewlett-Packard and literally hundreds of start-ups scattered across the floor of Silicon Valley and stretching all the way to Boston. Anchoring the explosive developments were both Stanford University in the west and the Massachusetts Institute of Technology in the east.

The universities and the laboratories they spawned were not just ideas factories for better electronics; rather, they were incubators for a new path to significant wealth: entrepreneurship. Of course, the entrepreneur had been a fixture in American business since the days of Eli Whitney and the cotton gin. And true to that tradition – a tradition that began with Benjamin Franklin and continues to this day – the American entrepreneurial class tends to come from middle class roots – or lower. (We suspect this is even more prevalent in Europe and Asia.)

Whereas widely available education has provided the tool kit for achievement, middle class values are the foundation, with economic need fuelling ambition. This trend towards "bottom-up" wealth formation has been augmented by the emergence of new classes of science-based products and ideas. Electronics, bio-tech, mathematics, software programming, electronic games, transportation, environmental sciences, non-traditional energy – all have been fertile arenas for the ambitious, focused entrepreneur. Ambition, coupled with the rise of open, innovation-hungry markets and venture financing, has created extraordinary opportunities for the creation of wealth.

As is evident from Figure 1, 72% of the wealth in our study is in the hands of people who came chiefly from the ranks of the middle classes or from poor families. They come largely from suburban or urban environments, rather than from rural or inner-city areas – and certainly not from gated communities! These people have, by

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FIGURE 1: FROM HUMBLE BEGINNINGS

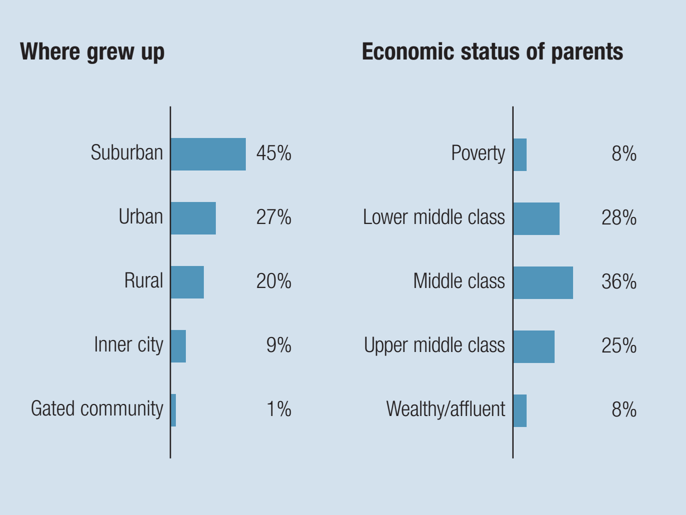
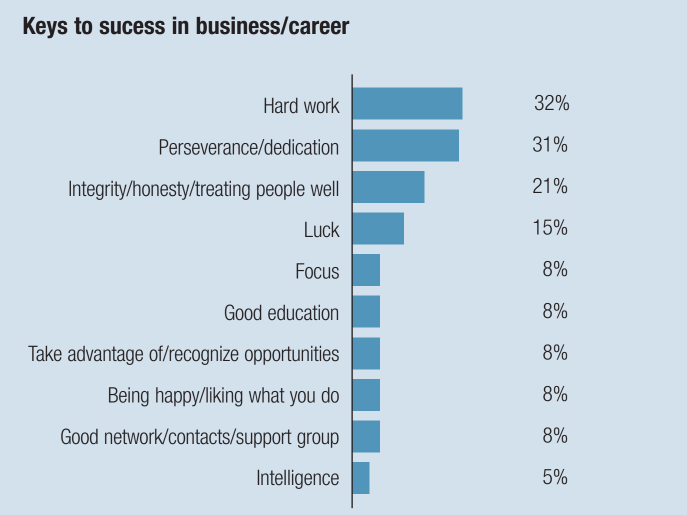


FIGURE 2: GETTING THERE



and large, retained their middle-class value structures. The respondents consistently named love of family, honesty, perseverance and a belief in the virtue of a little bit of luck as important values. They were far less likely to credit their success to their intelligence, special skills, education or relationships.

The key to the entrepreneur's success is what he brings to the challenge at hand:

Along similar lines, the investment strategy of the rich boils down to this: save, never overspend – and work hard.

Wealth does not come without a price, however. Market discipline and the expectations of investors and customers pervade the life of the young entrepreneur, as he makes his way to wealth. The entrepreneurs share a dedication to permanence-based "wealth engineering".

These virtues, if such is the word, are reinforced by the venture capitalists – the proverbial garage start-up

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is not a myth. Apple, Hewlett-Packard, Gateway and, most recently, Google all started in a garage. The key to the entrepreneur's success is what he brings to the challenge at hand: knowledge; a willingness to invest through hard work; a sense of the market – and focus.

FIGURE 3: EVOLUTION IN WEALTH

Agrarian 1650–1850	→	**Industrial** 1850–1950	→	**Corporate** 1950–1980	→	**Entrepreneur** 1980 onwards
• Landed gentry • Agricultural base		• Factories • Market base • Inventions		• Assets • Distribution • Conglomeration • Innovation		• Idea • Marketing • Focus • Innovation • Capital

The majority (81%) of our respondents insist that they are middle-class in character, believe their children should learn the value of money by working whilst in high school, and say they don't *feel* wealthy, despite being rich. Almost three-quarters (73%) still control a company, and 84% are married to the woman – or, less frequently, to the man – who partnered with them during the tough times, when dollars were lean and risks were great.

The fourth wave

What we have termed the fourth wave of American wealth finds its roots in the symbiotic relationship between these virtues, great ideas, an understanding of market demand, and the willingness of venture capitalists to "roll the dice" on people who are only marginally able to contribute capital. The combination of middle class mothers hectoring their children – "Be careful with the money you earn" – and venture firms whispering in their ears – "Don't spend a dollar more than you have to" – has produced a new generation of American wealth. This new generation bears little resemblance to the corporate profiteers of the post-war period, the merchant capitalists of the nineteenth century or the agrarian, land-based capitalists of the first two hundred years of American history.

We hypothesize in Figure 3 a simple, evolutionary model of the wealth formation process and how it has changed over time. Beginning with the gentleman farmer in the seventeenth century, passing through the great industrial expansion of the nineteenth and twentieth centuries to the start of the era of corporate dominance, wealth formation was the province of "bigness." Big farms, big factories and big capital bases created opportunities for the individuals at the helm of complex economic processes to control both the rate of innovation and the flow of ready capital for good ideas.

But a youngster with a great idea, a ready market and the gumption to take action can find an appreciative capital market to support growth. Whilst it was true that Google began in a garage and Gateway was built on a $10,000 loan, it is equally true that substantial venture capital made these engines of growth possible.

What did the venture guys require? The idea had to be solid. The market had to be identified and proven. But most important were the people issues: the investors wanted to believe that the young entrepreneur would stick it out through the tough work of building a company. They looked for the kind of virtues we have been discussing; and they tended to trust entrepreneurs who had them. These entrepreneurs are the emerging customers of the trust and private bank industries. However, unlike the venture people, we suspect that banks do not know them, and they, in turn, do not know the banks.

FIGURE 4: PERSONNAL LEGACY

	Total
Children/grandchildren	26%
Helped others/impacted others/inspired others	17%
Philanthropy/charity	15%
Had integrity/was honest/was a good person	14%
Business/career accomplishments	12%
Family	11%
Love/care/support for others	7%
Worked hard	6%
Treated others well/with respect	5%

One respondent put it this way,

> When I went public, I was taken to meet the private banking people with my underwriter, and we went into a meeting room in the biggest, fanciest office I had ever seen, and about fifteen people were gathered around the table. My new account manager introduced each in turn, and then opened the floor up to ideas, ostensibly for me. What happened, though, was that all these product people got into an argument – with real tempers – about what they wanted to do with *my* money. Nobody asked me who I was, what I wanted, what my goals might have been – anything. They didn't know me, and as far as I could see, this whole private banking thing was about sales, not service. Since then, I have taken my business to my friends, and I just use the bankers for transaction services.

Marketing to the fourth wave

The emergent wealthy come from environments in which sophisticated financial services – advisory services, money management services, trusts, private banking and even brokerage – were not exactly dinnertime conversation. They have had to learn what financial institutions provide. They have had to learn to trust that their interests will be fairly understood and acted upon. They have come to understand the mechanics of the services. They have to "like" their account manager (nearly every respondent noted that they will only do business with people they like).

Liking is a warm relational expression of trust. The problems with customer satisfaction that plague high-end financial services most likely arise not because the products are inferior but because customer trust is missing.

When you think about building trust into your marketing and service mix, you need to take a page from the venture guys. Specifically:

- Trust arises from reciprocal relationships in which responsiveness is rewarded by increasing confidence.
- Trust arises from the search for real goals with the client.
- Trust arises from the frequency of interaction between the account manager and the client.
- Trust is reinforced by the sustained quality of the reporting communication.
- Trust arises from the clarity of the due-diligence process.
- Trust arises when the account executive takes the side of the client.
- Trust arises when things are done on time.
- Trust arises when the family of the client is taken into account.
- Trust arises when progressive experience shapes both investment process and strategy.
- Trust arises when you remember their name.

These are simple ideas, ideas embedded in the history of man's pursuit of rewarding relationships. But for the new wealthy, these tenets are crucial. Small wonder, then, that friends and relations have replaced advisory professionals as the most reliable sources of investment advice.[6]

In concluding our interviews, we asked our respondents what they wanted their personal legacy to be. Their preferences are recorded in Figure 4.

Topping the list as their legacy to humanity are their children. Being a role model and a philanthropist came next.

The search for gain is intensely personal. After spending months with five hundred of America's most successful families, we believe focused, genuine personalization is the key to successful, profitable financial services.

Human nature being what it is, all of us – no matter how rich or poor – are most comfortable with the people who have our best interests at heart. That is a key lesson that financial advisers need to learn quickly if they really want to be more highly regarded as a source of advice than a brother-in-law or an aged aunt. ☐

Dr Jim Taylor is a vice-president of the Harrison Group. Andrew Sacks is President of AGENCYSACKS.

[1] A New York City-based advertising agency that specializes in marketing premium brands to the affluent.
[2] See *Rebuilding the trust* in *Argent 4.4*, July 2005
[3] Conducted in partnership with *Worth.*
[4] The study was conducted between March and August of 2005. Respondents were selected using a "snowball" sampling technique. Two hour interviews and a 45-minute questionnaire were administered to 500 American families in their homes, work environments and clubs. Admission to the sample required at least $5m in liquid assets. The data was collected by interviewers who were themselves chosen for their membership of the class of respondents.
[5] Complete study findings can be obtained by contacting Jim Taylor at the Harrison Group – jtaylor@harrisongroupinc.com
[6] This, of course, is not just the realm of the newly super-wealthy. As has been noted many times in these pages, research consistently shows "friends and family" as (usually) the most favoured source of financial advice for all consumers. Ed.