CLIENT ACQUISITION – A FAILURE OF LEADERSHIP

The private banks have not been as successful as they would like in attracting new high net worth customers – often because they are seen as sales orientated rather than specialised asset managers. Michael Maslinski analyses where they are failing and suggests how to turn things around and build trust.

There has been a great deal of comment in recent months that, with a few exceptions, private banks and wealth managers are underperforming in the vital areas of new client recruitment. A strong client acquisition process is central to the wealth management business model and the problem may go far deeper than some commentators suggest.

It is indeed quite remarkable that, in such a fast growing sector, after another three years of bull market, most private banks and wealth managers are apparently still struggling to attract new clients in sufficient numbers. On the face of it, there are only four possible explanations:

1. Despite strong market growth, there are too many wealth managers chasing too few clients
2. The clients are there, but the service offered by wealth managers is not meeting their needs
3. The service is right but is not being clearly or convincingly communicated
4. Most of the business is going to a small number of wealth managers who have designed, implemented and communicated their offering far better than the rest

The evidence

The true explanation is a combination of all the above. The private client sector would not be the first 'over-hyped' industry to have attracted too many competitors chasing a fast growing but nevertheless finite number of customers. This, however, does not explain numerous market surveys which suggest substantial unmet demand.

If the market is oversupplied, it is all the more surprising that most potential clients have never received a credible marketing approach from a prospective wealth manager. What on earth, you may ask, are these wealth managers doing to search for new business, if their message is failing to reach a large percentage of their target clients?

Furthermore, even when the clients are actively looking for wealth management, too many are failing to find what they want and find it difficult to distinguish one wealth manager from another. At worst, the process of looking for a wealth manager leaves them confused and sceptical – confused by the number of offerings, which claim to be different but look the same, and sceptical of the extravagant promises made, some of which are simply not credible.

Private banks and wealth managers persist, for example, in claiming - and even assuming - trusted advisor status, whereas most clients still see them as product salesmen. Indeed, repeated surveys in the UK market have indicated that far more clients see their IFA as a trusted advisor than their private banker.

Many are very disappointed that the calibre and experience of their private bankers simply do not match the claims of the institutions they represent. They are even more disappointed that they have to get to know a new private banker every two years, because of high staff turnover, thus confounding the notion of a relationship based business.

The term 'wealth management' is itself confusing to many clients, as opposed to asset management and investment management. Sophisticated business owners, for instance, often cannot believe their bank is

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capable of providing comprehensive advice across all their financial affairs in the manner described in the brochures. It simply does not ring true to their experience of the organisations concerned.

Even the much used word 'independent' is not always convincing. It is typically based on the notion of open architecture which essentially means outsourcing stock selection. In the same breath, however, many banks will tell clients that stock selection accounts for less than 10% of investment performance, whilst asset allocation, which they keep in house, accounts for 90%. Far from helping their case, extravagant or unrealistic marketing claims undermine trust and confidence, even in the core offering.

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Of course there are exceptions and there are obvious examples of institutions which have been outstandingly successful in promoting their brands and attracting new clients. Quite clearly, they are receiving a disproportionately high percentage of the available new business.

It is also true that most institutions have at least some private bankers with the experience and capability to deliver the promise. But if only a minority of lucky clients actually reach these individuals, the bank can scarcely complain if its reputation and its brand are affected more by the experience of the majority than the lucky minority.

Before considering how to deal with such a fundamental problem, it is perhaps worth analysing the causes.

The causes

The 'high level' explanation is that whilst private banks and wealth managers have been enormously successful in expanding product range over the last decade, they have not been so successful in training private bankers who can deliver what they promise or in designing an organisation which makes this possible.

I suggest that the reasons for the failure to engage large sections of the potential market lie in three main areas:

1. Unconvincing Client Proposition

For most wealth managers, their core expertise lies in asset management and possibly banking, but they promote themselves as 'wealth managers' to suggest some form of 'added value'. Most have so far failed to develop a really convincing proposition, which distinguishes wealth management from asset management, based on a proper assessment of client needs and of their own perceived capabilities.

They also promote themselves as 'trusted advisors', despite the fact most chief executives freely acknowledge the acute shortage of competent private bankers capable of sustaining a trusted advisor relationship. Even the term 'relationship' is sometimes questionable, given the rapid turnover of staff. Relationship, highlighted in the literature as a core strength, it is too frequently an area of weakness which attracts a great deal of criticism from clients and introducers.

It is not good business sense to design and market a proposition which rests so heavily on staff who don't always exist and, for some wealth managers, the proposition needs to be restated to recognise the reality, placing more emphasis on the areas of genuine competence.

2. Management and Training

The merry-go round of relationship managers leaves a fundamental flaw in the business model, for the reasons stated above. Higher and higher salaries cannot be the answer, as they undermine the economic model, and the sector needs to reflect on the failure of management to deliver and retain properly trained relationship managers in sufficient numbers to meet demand.

Whilst much has been invested in product knowledge training, few private bankers have been trained in the art of giving impartial advice - which requires considerable skill and aptitude - as opposed to selling products. There is too little understanding of the consultancy skills required, let alone the necessary training and development.

The problem is compounded by targeting and sales management systems which are fine for the retail market, but do not encourage the behaviour and culture to develop a trusted advisor relationship. The sector is in dire need of an alternative approach to managing the sales force.

One chief executive was recently quoted as saying that if he had the right staff he would win. It is one of the principal challenges of management to train and develop the right staff and to provide the leadership, management and training which really motivates them. Paying top dollar to poach client managers from competitors is simply not enough to build a sustainable business.

3. Marketing and Communictions

The lack of marketing culture is so deeply rooted that there are many differing interpretations of the word itself. The function of most marketing departments is mainly restricted to brochures, web sites and PR and they are staffed accordingly. Very few marketing staff have sufficient understanding of the business to communicate effectively with the outside world and most are too junior to influence their colleagues in designing the offering.

It sometimes seems they therefore operate in a world of their own, quite separately from the business itself, which is why so many brochures are full of platitudes and meaningless promises which fail to distinguish one institution from another. You could swap the names on most brochures and no-one would notice. The sector has demonstrably failed to embrace Peter Drucker's theory that marketing needs to permeate every aspect of the organisation and is the responsibility of every manager.

Marketing terminology and jargon have been widely introduced, but deeply misunderstood. Many banks claim, for instance, to have introduced 'client segmentation', but nearly all claim the same four or five segments: entrepreneurs, professionals, inherited wealth, media & entertainment. There is more to segmentation than dividing the target markets under four or five rather broad headings, and every segment needs a realistic business model and a client acquisition strategy based on properly researched buying behaviour.

There is even deep misunderstanding of the word 'brand', with large sums invested in visual design and logos, but far too little in developing a clear brand identity and strategy. This should be consistently communicated not just through marketing materials, but in every aspect of the way the organisation deals with clients and introducers, based on a defined and distinctive corporate culture.

Effective communication requires considerable expertise and appropriate processes. But many private banks have failed to recognise the need to invest in this crucial area, in particular failing to develop client communications which deliver clear and consistent messages. Some areas of communication are far less professional than in the retail market and this is a serious failure for a sector which prides itself on its relationship skills.

Client managers are thus too often left to their own devices in seeking new business, lacking in training and support and above all lacking the confidence of a clearly articulated and compelling proposition, relative to competitors. It is not surprising that the majority struggle and agonise over how to meet their new business targets and that those who succeed often do so because they have natural aptitude, rather than because of the support and guidance they receive.

The solution

Perhaps the first step is to recognise that the main challenge for private banks is to build trust and credibility and every decision and action should be judged against this priority.

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Building trust means clear, honest and consistent communications both internally and externally. It means aligning behaviour and organisational culture with the claims made to the outside world.

For most organisations it would not be difficult to compile a list of ten significant, 'flagship' changes in management and behaviour to signal major cultural change, in favour of the client. The most controversial of these will be the targeting system, not because anyone believes in the current approach, but because few have experience of any other approach to motivating the staff.

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Many may be surprised, however, at how much easier leadership becomes when the staff are better trusted and they can see real consistency between the messages put out in the brochures and the way the organisation is managed. The removal of obvious conflicts between serving the interests of the clients and meeting the demands of the organisation would itself energise and motivate the sales force.

Perhaps the hardest task facing the sector is the development of an appropriate marketing culture, which places marketing at the heart of management, with genuine influence over the client proposition, market positioning, client acquisition strategy and the leadership of the sales force. The process of achieving management 'buy in' to the real implications of a marketing led culture would be an excellent first step. ☐

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