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The Biggest Trap Advisors Face When Marketing Themselves

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With the growth of financial planning and the CFP certification over the past decade, just doing comprehensive financial planning is not the differentiator it once was. As technology commoditized first investment transactions, and now increasingly the basic elements of diversified portfolio construction, advisors are forced in the direction of providing more holistic financial advice to add value to the relationship. While this is ultimately a plus for consumers, it also means that providing financial planning services to consumers is a much more crowded, competitive space than it was just a few years ago.

In response to a more challenging environment, many advisors have doubled down on their efforts to be generalists, seeking to cast a wider marketing net in the hopes of attracting more prospects to become clients. Unfortunately, it's not clear whether such efforts really result in more clients, or simply more marketing work for the same, or even inferior, results. After all, it only takes a few advisors becoming specialists to attract away key potential new clients, to the point where each specialist may only be able to grow within his/her niche while the generalists can't grow at all. The end result is that the advisor sees even more prospective clients but gets fewer actual clients.

Accordingly, the real key to turning around the trap of the wider marketing net is to recognize that for a business that is already undifferentiated and struggling to grow, casting an ever-wider net will not result in more clients and business. Instead, the key to differentiation is to turn around 180 degrees, and become more focused and specialized, to truly become the best-in-class for a particular type of clientele that can be served effectively and profitably. While that might result in fewer prospects, real differentiation ultimately results in more actual clients, allowing advisors to grow their businesses smarter, instead of just working harder.

Plight of the Typical Advisory Firm

There was a point in time, not so many years ago, where being a comprehensive financial planner was a differentiator. In 2004, there were an estimated 340,000 people calling themselves a “financial advisor” according to Cerulli, but a mere 45,000, 13%, were actually CFP certificants.

Ten years later the landscape has shifted. The number of advisors has dipped down close to 300,000, and the number of CFP certificants is pushing 70,000, which means the percentage of advisors who are CFP certificants has nearly doubled over just a decade from to almost 23%. Arguably, the number of people who hold themselves out as comprehensive financial advisors and wealth managers is even greater, given the growth of the CPA/PFS designation, the emergence of new programs like the CPWA and the ongoing proliferation of other certification and designation programs (despite their varying degrees of quality).

Coupled with these trends is the challenging reality that many of the services for which financial advisors were once handsomely compensated are now being brutally commoditized by technology. It was “only” 20 years ago that most consumers had to actually wait for the newspaper to find out the price of a stock from the prior day, and call a stockbroker just to get a trade executed. Constructing a well-diversified portfolio was an even more complex affair. Yet the rise of online brokerage services and the expansion of the Internet had already driven the cost of executing stock trades down by ~90% 10 years ago, pushing advisors in the direction of constructing diversified portfolios instead. Yet now that service, too, is becoming commoditized, from the rise of sophisticated portfolio analysis and trading tools available directly to investors, to retail branches of online brokerage firms offering portfolio construction advice to a new breed of online “robo-advisors” like Betterment and Wealthfront that can craft, implement, and monitor a high-quality passive strategic portfolio for a mere 0.25% or less.

While this doesn't mean the robo-advisors will eliminate the human advisors or that giving financial advice is being totally commoditized (in fact, financial planning is the anti-commoditizer right now!), it does mean that financial planners are facing a crisis of differentiation unlike anything seen before.

The Trap of the Wider Net

For advisors struggling with slow client growth, there is a natural temptation to try to overcome the challenge by casting a wider net for new clients. The rationale is fairly straightforward: if my current marketing approach isn’t netting many/any clients, it must be because the net is not being cast widely enough. Open up the available services

to a wider range of prospective clients, the logic goes, and there will be more potential people to work with. Accordingly, advisors back away from their asset minimums, get more flexible on their fees, and increasingly offer to work with and be an expert for "anyone" who's willing to pay.

Paradoxically, casting a wider net for potential clients can actually reduce the effectiveness of the firm's marketing. By doing more of everything-for-everyone, the firm becomes less differentiated, less unique and therefore less appealing to anyone in particular. The end result: by casting the net wider, the number of potential clients may be greater, but the number of prospects who actually *become* clients is often fewer.

In other words, the process of widening the net may result in more prospects but no more actual clients (in fact, it may even be fewer clients)! For instance, instead of closing 30% of the next 15 clients, firms cast a wider net and close 10% of the next 30 clients, bringing in fewer clients (three instead of five) despite working twice as hard in prospecting (30 prospect meetings instead of 15). Sadly, the conclusion of many advisors at this point: well, if there were only three new prospects, that must mean it's time to cast the net *even wider*, and try to get 40 or 50 prospective meetings. Never mind that as the paradox of the wider net plays out, 50 prospect meetings may drop their closing ratio to 5%, reducing their new client flow to only two, despite the fact they've now tripled(!) their prospect meetings.

The end result: casting a wider net causes the firm to work harder and harder meeting more and more prospective clients, yet not necessarily bring on any more actual new clients.