Four Steps to Successful Client Segmentation

Crafting and implementing your customized segmentation strategy

How Segmentation Fuels Growth

A successful client segmentation strategy can help your business and your clients thrive. Yet Fidelity data shows that only 37% of firms segment their clients.[1] What's more, those that do aren't realizing the full benefits of segmentation for their businesses or their clients. At its core, a successful segmentation strategy can improve your:

Client experience

You can tailor your offering to each tier of clients, according to their needs. For instance, our data shows that 50% of the time, firms are not engaging with the spouse of the primary client, so finding out more about their needs can help you offer more value to these clients.[1]

Resource allocation

You may see increased advisor productivity thanks to segmenting, which enables you to match the right advisor to the right client and helps you allocate the right amount of time and resources to each client, based on their needs.

Pricing discipline

Segmenting allows you to highlight any variations in pricing across the different advisors in your firm. Discovering these inconsistencies can help you set a more consistent, disciplined approach that will help increase revenue immediately.

Understanding of your overall business

Knowing your business at a deeper level help you plan more effectively. For example, we've found that segmentation reveals that an average of 51% of the households firms serve are not ultimately profitable for those businesses.[1] Segmentation allows you to identify which segments drive the greatest growth and focus your resources accordingly.

Is your firm hiring?
Segmentation can help firms match smaller clients that new advisors can nurture and grow with, as well as highlight areas where specific skills are needed.

Is your firm considering a merger or acquisition?
Segmentation can increase efficiency, which will make sellers more attractive to prospective buyers and give prospective buyers more buying power.

[1] Unless otherwise noted, Fidelity's Client Insight Tool is the source of all data throughout this workbook. Pleas see last page for important information about this tool.

Four Steps to Success

The foundational steps below are used by many firms who are successful at segmenting their clients. Whether you are just getting started with segmentation or are optimizing an existing model, these four steps are useful checkpoints along your journey.

STEP 1

Document Your Strategy and Commitment

STEP 2

Collect Data

STEP 3

Choose Your Segmentation Method

STEP 4

Implement Your Customized Segmentation Strategy

Step 1: Document Your Strategy and Commitment

Taking time for this step can lead to better results that are more tangible, and will help you better understand the resources you may require.

Strategy

Goals. Most great strategies start with identifying top goals. Start by listing the outcomes you want to achieve and then reorder them by importance. If you are new to segmentation, consider starting with one of your top goals then adding on after you've had success. Ideas to consider include:

- Better matching of services and expertise with client needs
- Allocating resources for more efficient growth
- Customizing the client experience to create deeper loyalty
- Growing share of wallet with clients who fit the ideal profile

Roadblocks. After you've identified your goals, it's important to also identify any limitations that might prevent you from achieving them. You can then document strategies for overcoming those obstacles. Potential limitations may include:

- Offending or putting clients at risk
- The desire to provide all clients with the same level of service
- Advisor frustration over loosing or adding more clients
- Potential costs of increased service
- No capacity to add additional clients
- Level of commitment from senior leadership

Service model. There's no one ideal number of service tiers you should establish. Your final number will depend on the services you offer, your firm's expertise, and the clients you serve. However, you should ensure there are meaningful differences among these tiers. If there are no clear delineations, consider collapsing any overlapping tiers into one.

Document the client experience for each tier: consider products and services, your approach to client service and communications, and client journey touch points (e.g., prospecting, onboarding, client relationships, and client departure).

Cost. Conduct a cost/benefit analysis of your plans. It's not uncommon for segmentation plans to include increased levels of service and support for certain client segments (as well as more efficient servicing of others). You may also want to consider any pricing implications. Review your existing pricing model to determine if it aligns with your approach. In your review, consider both account minimums and fees, as well as your compliance and regulatory responsibilities.

STEP 1: Document Your Strategy and Commitment

KPIs. Establish a set of metrics to measure results. To help you determine the plan's effectiveness, consider establishing a set of key performance indicators (KPIs) to benchmark what your firm deems as success. Select KPIs that align with the goals you established for your segmentation initiative, which will help you more accurately gauge the results of your efforts.

Leading indicators include:

- Loyalty by segment
- Consistency of pricing across client tiers
- Time spent with clients

Consider lagging indicators as well, including:

- Profitability
- Growth
- Share of wallet

Commitment

Commit to the initiative. Developing and implementing a segmentation strategy can be a multiyear effort. Is your leadership committed to investing the time and effort a segmentation strategy may demand? It's wise to discuss this before starting the process. At the same time, consider some of the limitations you identified in your assessment and how you plan to address them.

Appoint a project sponsor for the initiative. Regardless of your firm's size, you may want to appoint an executive leader as a project sponsor for the segmentation initiative. A project sponsor typically "owns" the project, helping the firm realize its expected benefits by allocating the necessary resources, as well as leading the organization through successful implementation.

Communicate your plans to your teams. Once your firm makes the commitment, communicate your plans to your organization. In these communications, consider focusing on the reasons for the initiative, the potential benefits for the firm, and the type of commitment and involvement that will be expected by associates. This is also an opportunity to introduce the project sponsor and how he or she is tasked with leading the initiative.

Assess training needs. While firm-wide communications about your segmentation approach and supporting client experience are important, you also want to assess whether your team needs new skills or approaches to execute on your intended plans. This could include, among other things, training on any new policies and procedures that you want to institutionalize across your firm or for certain segments of your client base.

STEP 1: Document Your Strategy and Commitment

Worksheet: Assess the expertise and availability of your capabilities

As you develop the tiers of your service model, the following assessments can help you evaluate your capabilities and map out which services are most appropriate for each segment.

Rank how effective your firm is for each of the capabilities listed:

GREEN—Very effective

YELLOW—Needs improvement

RED—Not effective at all

Capability	Green	Yellow	Red	Available to All Segments	Available to (Segment Name)	Available to (Segment Name)
Investment management	O	O	O	O		
Tax planning	O	O	O	O		
Financial planning	O	O	O	O		
Estate planning	O	O	O	O		
College planning	O	O	O	O		
Account servicing	O	O	O	O		
Communications from advisors	O	O	O	O		
Frequency of periodic reviews	O	O	O	O		
Emails/phone calls to clients	O	O	O	O		
Communications from the firm	O	O	O	O		
Building client relationships	O	O	O	O		
Centers of Influence contacts established	O	O	O	O		
Prospecting services	O	O	O	O		
Life planning	O	O	O	O		
Concierge services	O	O	O	O		
Other	O	O	O	O		

Step 2: Collect Data

Once you've decided on the direction you want to take with segmentation, it's time to focus on the special sauce that really brings it all to life: quality data and segmentation methodology. The success of your program may hinge on the quality of data from your CRM system or whatever you rely on for managing client information. You can increase the effectiveness of your segmentation strategy by investing in—and remaining committed to—collecting quality data and making it easily accessible. The methodology you choose will depend not only on your strategic goals, but also the client data that's available to you.

Evaluate your systems
Ensure you have a technology infrastructure that will enable you to collect and analyze your data.

Clean up your CRM
Your existing fields in your CRM need to support your segmentation approach. Remove and update any old data to achieve this objective.

Determine which data you need to collect:
Consider what you need to help drive engagement with clients and to enable segmentation. Some ideas to consider:

- What are their preferred methods of communication – texting, email, phone calls, etc.?
- What are their philanthropic and volunteer interests or goals?
- What are they passionate about?
- Have they had past experience with financial advisors? If so, what was that like?
- What are their priorities for the children, besides financial stability? What values do they want to pass on to them?

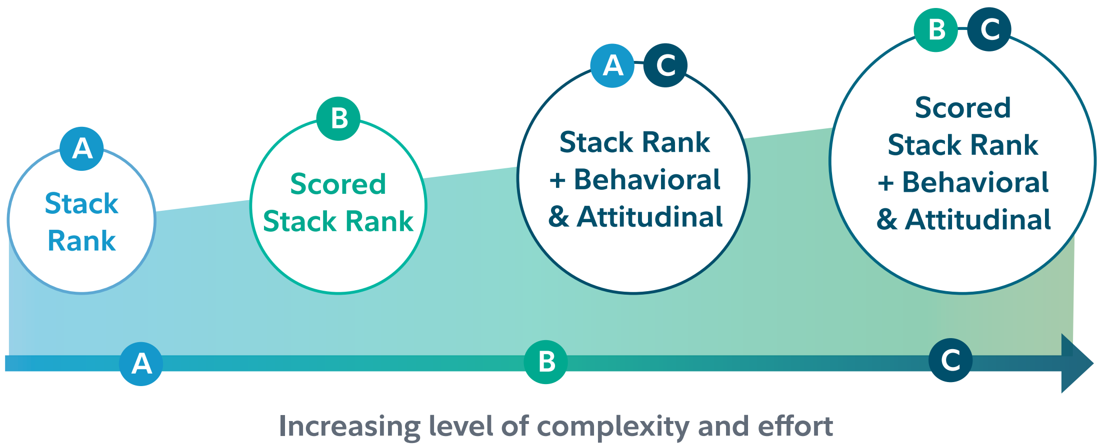
Train your team on new processes
Institutionalize the data collection process by establishing and training your team on policies and procedures for data collection and system population. Whether you are embarking on a firmwide initiative to set up your first system or are updating an existing one, consider offering incentives or celebrating as a team for achieving milestones or goals you had established.

Step 3: Methods to Consider

When determining your firm's segmentation methodology, choose an approach or combination of approaches that meets the unique goals and needs of your firm.

In its simplest form, segmentation is a purely quantitative exercise. Many advisors choose to segment their clients based solely on client profitability. However, advisors can take segmentation to the next level by factoring in qualitative client attributes, providing the advisor with a more sophisticated understanding of the true needs of each client. Each layer makes the equation more complex but creates a more accurate view of your client base and reaps more benefits for them and the firm.

Three Methods for Approaching Segmentation



STEP 3: Methods to Consider

A B C

Stack Rank

Ranking and subsequently grouping clients into service tiers based on one attribute (e.g., revenues generated to the firm or assets).

Benefits
Easily assess how many clients—and which ones—drive the majority of growth.

Considerations
Taking a one-dimensional approach can lead to overlooking important factors of the true value of your clients—referrals from clients with relatively small AUM, for example. Does not support a personalized client experience based on the unique needs, attitudes, and behaviors of individual clients.

Calculating Stack Rank

Rank a list of your clients from high to low, based on your chosen attribute. Then, divide the list into segments. The number of segments you choose should align to the number of tiers in your service model.

In the example below, clients were ranked by how much revenue they generate, then divided into three segments and placed into corresponding service tiers.

Based on our research showing that an average of 50% of households are unprofitable to firms, it may make sense for only the top 20% of your clients to be in Tier 1, the middle 30% in Tier 2, and the remaining 50% to Tier 3. You can also consider natural breakpoints based on clients' needs and AUM.

Client Name	Revenue Rank	Service Model Tier
Mary Smith	1	1
David Fallon	2	2
Marcia Swan	3	2
Cecilia Barro	4	3
Eduardo Valla	5	3
Jesse Zarnick	6	3

STEP 3: Methods to Consider

A B C

Scored Stack Rank

Ranking and subsequently grouping clients into service tiers based on a set of weighted client attributes.

Benefits
Helps you define the value of the relationship based on attributes that are important to your firm.

Considerations
Requires having consistent, robust data about your clients, with standardized qualitative values across your full advisor team. Does not support a personalized client experience based on each client's unique needs, attitudes, and behaviors.

Calculating Scored Stack Rank

Your firm's unique situation will determine the inputs and approach you may want to take when using this methodology to identify segment clients. There are four main steps to calculating a scored stack rank. Use the steps below to help guide you.

Step A: Decide on the attributes you will use. Then, assign a weight to each that reflects the importance of that attribute to your firm. In the example below, the firm chose to weight three client attributes.

Attribute	Assigned Weight
1. AUM	30%
2. Revenue	45%
3. Referral Source Potential	25%

Scored stack rank allows firms to identify the attributes that are most important to them. This list and its weight will look different for every firm. Additional attributes to consider include:

- Potential to grow share of wallet
- Wealth trajectory
- Time and resources required to serve them
- Client location
- Growth Potential
- Ease of Working
- Personality

STEP 3: Methods to Consider

A B C

Step B: Choose a scoring range for the attributes, then assign a score to each client for each attribute. In the example below, the firm chose a scoring range of 1 to 5.

Client name	1. AUM 30%	2. Revenue 45%	3. Referral Source Potential 25%
Mary Smith	3	2	2
David Fallon	4	4	2
Marcia Swan	5	5	4
Cecilia Barro	4	5	5

Step C: To calculate a client's total score multiply that client's attribute scores by their weight, then add up the products. Lastly, divide the products' sum by the sum of all the attribute weights (in this example, the sum of the attribute weights equals 100). In the example below, the calculation for Mary Smith's total client score looks like this:

(3*30)+(2*45)+(2*25) / 100 = 2.3

Client name	1. AUM 30%	2. Revenue 45%	3. Referral Source Potential 25%	Total client score
Mary Smith	3	2	2	2.3
David Fallon	4	4	2	3.5
Marcia Swan	5	5	4	4.8
Cecilia Barro	4	5	5	4.7

STEP 3: Methods to Consider

A B C

Step D: Use the total scores to identify the service tiers that your clients fall into.

Client name	1. AUM 30%	2. Revenue 45%	3. Referral Source Potential 25%	Total client score
Mary Smith	3	2	2	2.3
David Fallon	4	4	2	3.5
Marcia Swan	5	5	4	4.8
Cecilia Barro	4	5	5	4.7

1
Tier 1
Score: 4.0+
Marcia Swan
Celia Barro

2
Tier 2
Score: 3.0–3.9
David Fallon

3
Tier 3
Score: 0.0–2.9
Mary Smith

STEP 3: Methods to Consider

A B C

Behavioral and Attitudinal Segmentation

An additional layer of segmentation that helps firms better customize their clients' experience based on unique needs, attitudes, behaviors, and interests, as well as advisor expertise.

Benefits
Multidimensional approach that assigns clients to service models and advisors based on their value to your firm, as well as services they may need or want. More customized client experiences can deepen loyalty.

Considerations
Requires you to consistently capture and analyze a robust set of qualitative and quantitative client data.

Using Behavioral and Attitudinal Segmentation

Behavioral and attitudinal segmentation can be used in combination with stack rank or scored stack rank. For example, behavioral and attitudinal attributes can be scored as part of a scored stack rank. This list of attributes will look different for every firm, depending on their goals, service model and client base. To develop your list, consider these questions related to behaviors and attitudes:

- How collaborative are your clients?
- How involved do they want to be in their finances?
- What is their risk tolerance?
- How do they prefer to communicate?
- What do they value (e.g., price, frequent meetings)? capabilities of the firm?

Behavioral and Attitudinal Segmentation: An Example

Behavioral and attitudinal segmentation can also be layered in after a client is placed into a service tier. From there, they can be further segmented based on the client's life stage, unique needs, and specific interests. In the example below, clients are grouped into three different personas based on how they approach working with an advisor. This model helps align services to that client's preferences while also taking into account the service tier that they fall into.

	TIER 1	TIER 2	TIER 3	TIER 4
Delegator	Frequent in-person meetings Ongoing discussions focused on goals and progress	→	→	Minimal in-person meetings Periodic emails focused on goals and progress
Validator	Frequent virtual meetings Quarterly review of financial plan and goals	→	→	Minimal virtual meetings Annual review of financial plan and goals
Negotiator	Annual review in-person highlighting goals and advisor value Detailed in-person discussions about financial goals	→	→	Annual review email highlighting goals and advisor value Online questionnaire capturing financial goals

Step 4: Implement Your Customized Segmentation Strategy

After you've collected data, completed your analysis, and chosen your methodology, it's time to implement changes based on your findings.

Once you've identified your ideal customer segments and the services they need most, you can also determine which services you may be able to outsource or stop altogether. This approach can help you offer a better client experience while creating more opportunities to help increase revenue.

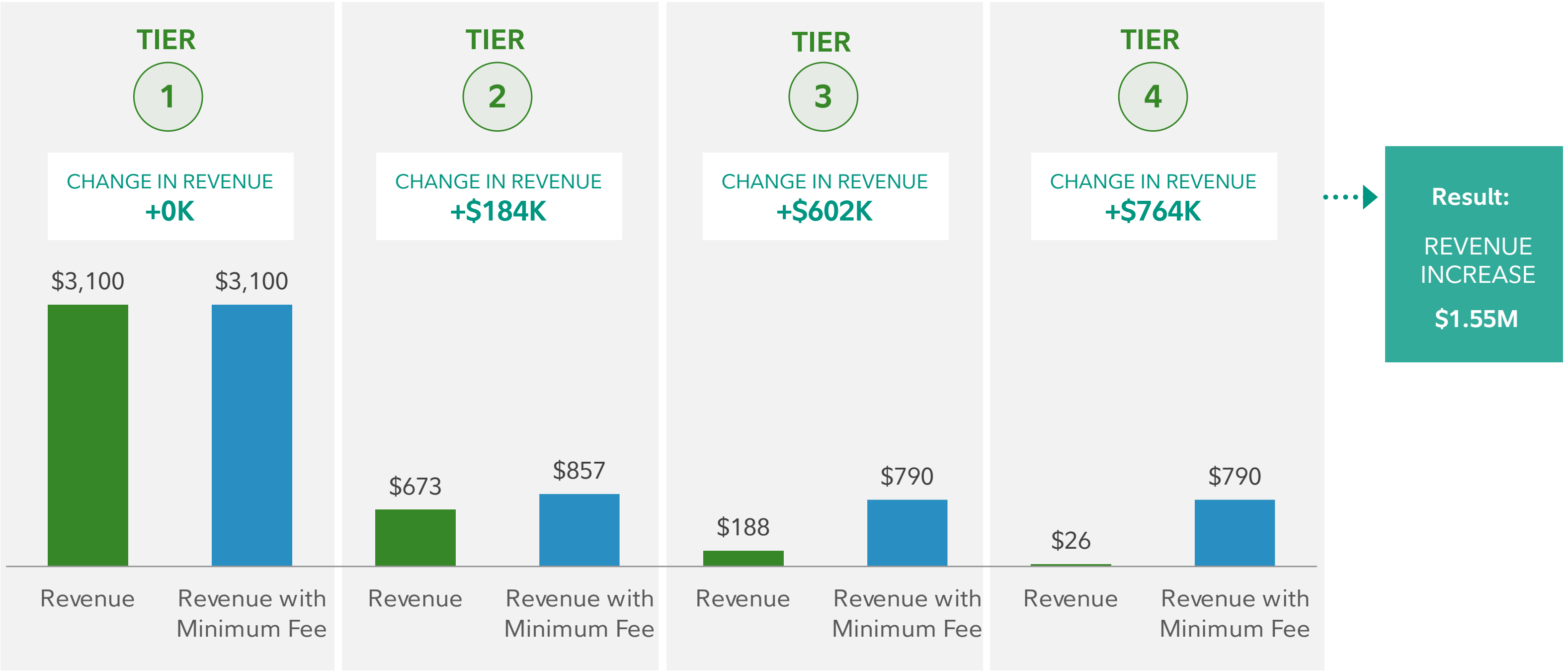
STEP 4: Implement Your Customized Segmentation Strategy

Revenue growth opportunities

One of the main benefits of client segmentation for firms is the opportunity for revenue growth. For example, you might consider new strategies for servicing unprofitable clients:

- Implement a new service model: You could leverage model portfolios with the help of platforms, such as Fidelity's FMAX.
- Team junior advisors: Create capacity and train your firm's next generation of advisors
- Recommend another firm: If your cost-to-serve exceeds what they are willing to pay, consider your fiduciary duty and introduce them to a lower-cost alternative.
- Raise fees or add a minimum fee: You might raise fees for clients with abnormally low yields who do not qualify for an exception or implement a minimum fee across all segments. Here's what that may look like:

CHANGE IN REVENUE AFTER IMPLEMENTING A $5K MINIMUM FEE



STEP 4: Implement Your Customized Segmentation Strategy

Actions to help ensure a smooth transition

Here's what you can do to help your segmentation strategy succeed:

Within your firm:

Demonstrate added value to your advisors
It's not easy to give up clients if you do not see the clear benefits of doing so. Before discussing client transitions with your advisors, prepare an analysis that highlights which clients are profitable and why, along with how the extra time gained from a transition could increase the advisor's overall long-term success with your firm.

Consider offering advisor incentives
To make a client transition seamless and successful for the client and your firm, the current advisor may be more receptive to the change when incentives are in place. While each firm's situation is unique, consider a short-term incentive structure that complements your existing compensation and incentive plans—one that can drive change that also aligns to your long-term strategy.

Be transparent when sharing benefits with clients
To make clients feel like they are receiving equal or better service, consider positioning the change as an expanded service model. Some firms share a client service grid with clients and prospects to help with transparency, while others maintain an internal segmentation document and share more general service information with clients.

For your clients:

Don't force the transition
Recognize that few people like change, and that there will likely be some who do not feel comfortable with a transition to a new advisor. In this situation, don't force the issue. Instead, consider having the new advisor participate in client meetings, and be available as a backup. Over time, you will be able to reevaluate whether your proposed transition still has the potential to be a good fit for all parties involved.

Train your team on new processes:

Institutionalize the data collection process by establishing and training your team on policies and procedures for data collection and system population. Whether you are embarking on a firmwide initiative to set up your first system or are updating an existing one, consider celebrating as a team for achieving milestones or goals you had established.

STEP 4: Implement Your Customized Segmentation Strategy

Segmentation Case Study: Kayne Anderson Rudnick (KAR)

KAR is a firm that continues to evolve their focus from asset management to wealth management. Several years ago, KAR realigned its fees for net new clients, and many legacy clients were priced on a fee schedule that was lower relative to the new value this firm has been delivering.

KAR focused on a fee realignment effort to support three primary goals:

1. Support alignment between pricing and the value KAR was delivering.
2. Ensure consistency from a client to client perspective.
3. Dive profitability on these clients.

In order to achieve these goals, KAR focused on educating the advisors on communicating the value of their current offering and justifying the effort aligned to this value. Additionally, the firm implemented a short-term compensation incentive to support the re-pricing initiative.

OUTCOME:

81 clients engaged

80 accepted new pricing

As a result of clients accepting the new pricing, KAR saw a significant revenue lift.

STEP 4: Implement Your Customized Segmentation Strategy

Setting Up Client Tiers: An Example

To see how you might bring all of these ideas to life in your segmentation strategy, here is an example of how you might define and implement client tiers within your firm.

SCALABILITY: HIGH → LOW

Investment Offering
Wealth Advisory
Client Service
Communications and Education

TIER 1
SPECIALIZED

- SMA/UMA models (ESG, Alts, hedge funds)
- Interactions with the next generation
- Year-end tax package to CPA
- Holiday gift from advisor

TIER 2
CUSTOMIZED

- Professionally managed model portfolios, review outside holdings, tax overlay
- Situation-based financial planning
- Duplicate statements to 3rd party CPA
- Seminar and special event invites

TIER 3
PERSONALIZED

- Professionally managed prepackaged model portfolios with performance commentary
- Meet once a year in person, referral to COIs
- Standard quarterly reports
- Annual event invite

TIER 4
OPTIMIZED

- Combination of digital advice with access to a team of advisors as needed
- Basic cash flow analysis, annual virtual meeting
- Web access to online reports
- Company newsletter, birthday card, holiday card

STEP 4: Implement Your Customized Segmentation Strategy

Worksheet: Assess your loyalty-building communications

If you want to segment your communications, use this worksheet to gauge their effectiveness and how you plan to make them available to each service tier.

Rank how effective your firm is for each of the capabilities listed:

GREEN—Very effective

YELLOW—Needs improvement

RED—Not effective at all

Purpose	Capability	Green	Yellow	Red	Available to All Segments	Available to (Segment Name)	Available to (Segment Name)
To educate and express your point of view	Thought leadership on investment and planning topics, as well as extraordinary global or market events	○	○	○	○		
	Market commentaries	○	○	○	○		
	Newsletters	○	○	○	○		
	Webinars, seminars, other events	○	○	○	○		
To address change	Fund change	○	○	○	○		
	Portfolio allocation changes	○	○	○	○		
	Organizational changes in your practice (e.g., hires, departures)	○	○	○	○		
	Changes in the client's life	○	○	○	○		
To review client results	Quarterly investment review	○	○	○	○		
	Annual review	○	○	○	○		

Measure and Refine

After implementing your segmentation strategy, planned milestones are essential to measuring its effectiveness and refining your approach. Choose a cadence to regularly review the KPIs you chose in Step 1, and ensure everyone at your firm understands the progress you've made towards your goals.

	Service Tier	Start	Q1	Q2	Q3	Q4	Goal
% Asset Growth	1	0%					3%
	2	1%					2%
	3	1%					1%
	Total	2%					5%
Cost of Service/Quarter	1	$$$$					$$$
	2	$$					$$
	3	$$$					$
	Total	$$$$$$					$$$$$$

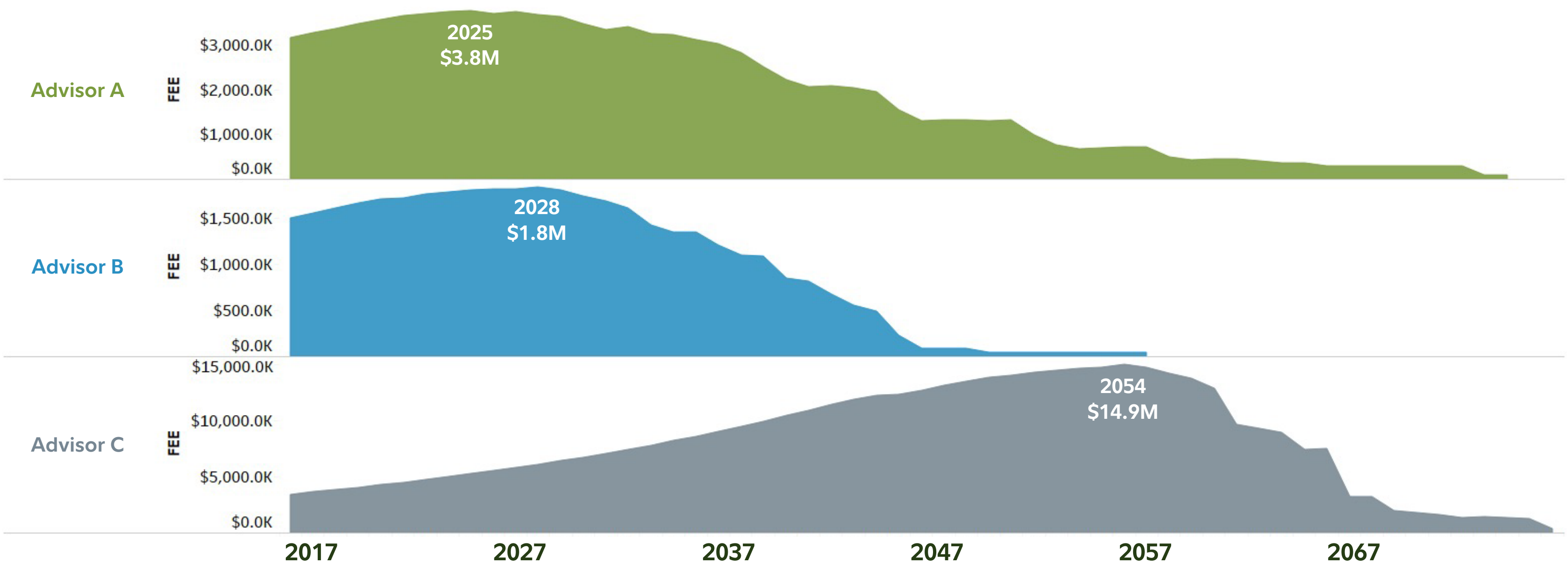
You can also use these check points as an opportunity to reevaluate your overall approach, whether its your service model, data collection strategy or even the KPIs you want to track. Measuring and refining your segmentation strategy on an ongoing basis will help you better manage the trajectory of your revenue stream, consider resource allocation, and inform the evolution of your fee structure.

Next steps

A successful client segmentation strategy is key to identifying which clients may be driving the most growth for your firm. Fidelity can help you uncover more details about your firm and client base. Our Client Insight Tool provides a scalable, deep analysis of an advisory firm's households, delivering ideas to help increase profitability and create a sustainable, growth-enabled business. Areas of focus include:

- Firm-wide and advisor-specific revenue stream longevity
- Identifying tiers and profitability of households
- At-risk revenue due to lack of engagement with next-gen and spouses

DETERMINING THE LONGEVITY OF AN ADVISOR'S BOOK OF BUSINESS



Assumptions: Revenue stream based on the clients' ages and their life expectancy from the Social Security Mortality Tables.
Additional assumptions: Revenue BPS for new assets = 1%
Rate of return = 5%
Spend-down rate for clients age 65+ = 4%
Asset accumulation per year for clients age <65 = $50K

For more information about segmentation strategies or our Client Insight Tool, please contact your Fidelity representative.

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