SALES + MARKETING

Connection Quotient: First Make Relationships Personal, Then Personalize

What financial advisors expect from their relationships with asset managers, and how asset managers can use personalization to deliver

By Jason Brown and Rubesh Jacobs

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What if there was a way to interact with financial advisors more broadly, more cost-efficiently and with more impact? Solving this puzzle—a sort of holy grail of distribution—is a goal for nearly every asset manager these days. New strategies and technology have created a groundswell of excitement and anticipation around sophisticated, personalized, omnichannel commercial approaches to distribution. And most asset managers are chasing the goal of creating individualized client experiences that their peers in the retail industry now boast of: tracking customers throughout their buying journey and providing the right information and offer at the right time via the right channel.

There's good reason for asset managers to pursue this goal: The pressure on distribution economics is real, and likely only to get worse. A variety of well-known industry trends—regulation, the rise of index and low-cost products, and the growing influence of home offices—are forcing asset managers to look to streamline distribution costs while at the same time improving effectiveness. It's a tall task, for sure, but one that must be accomplished in order to thrive in this new environment.

Fortunately for asset managers, this puzzle can be solved. In our experience, firms that focus on the needs and preferences of financial advisors (as individuals or small groups) and orchestrate their distribution using that insight will gain access to decision makers and have greater impact in each interaction. And in doing so, asset managers will realize tangible benefits while also helping their clients succeed.

Over the past several months, ZS collected feedback from more than 350 financial advisors in order to better articulate the requirements for and benefits of personalized communication. This study:

+ Defines a framework for assessing the relationship between asset managers and advisors

+ Highlights the types of interactions that could truly benefit advisors

+ Measures the mutual benefits to advisors and asset managers

The industry is inundated with investment products, perspectives and tools, so in this era of fee pressures, new regulations, innovation and generally rapid change, how can asset managers differentiate themselves?

There has always been a strong industry belief that asset managers and financial advisors have a symbiotic relationship. Asset managers strive to fuel this relationship by providing value during each advisor interaction. In this pursuit, to complement the value from investment products, asset managers also provide advisors with perspectives on the market, updates on industry trends and programs to build their businesses. Advisors, by way of investing their portfolios with asset managers and recommending them to colleagues, deliver value to asset managers. But the industry is inundated with investment products, perspectives and tools, so in this era of fee pressures, new regulations, innovation and generally rapid change, how can asset managers differentiate themselves? How exactly, and to what extent, should asset managers invest in growing this symbiotic relationship with advisors?

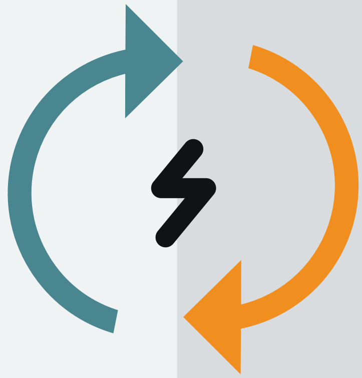
THE POWER OF CQ

DRIVING THE CONNECTION QUOTIENT (CQ) BENEFITS EVERYONE

ASSET MANAGERS

Benefits:

- Retaining/increasing business
- Raising brand recognition
- Receiving client referrals
- Increasing access
- Expanding willingness to try new products



FINANCIAL ADVISORS

Benefits:

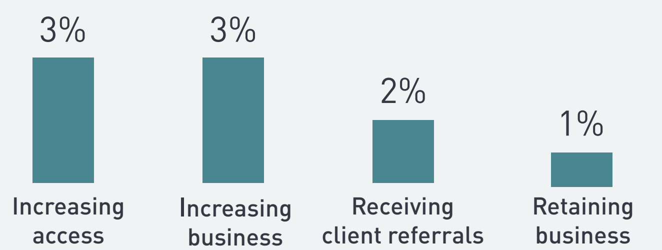
- Making well-informed decisions
- Achieving personal success
- Feeling valued

RE-ENERGIZE THE RELATIONSHIP

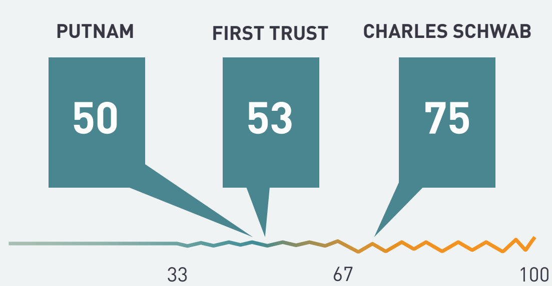
BOOSTING CQ DEMANDS ORGANIZATION-WIDE COLLABORATION

REALIZE THE VALUE

THE FIRMS WITH THE **HIGHEST CQ** SEE THE BENEFITS*



FIRMS WITH HIGH CQ*



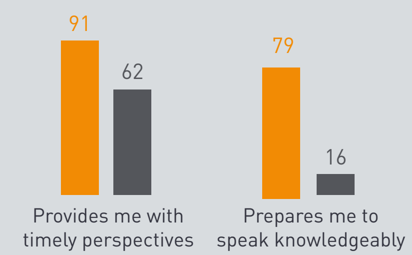
*Identified by respondents as more thoroughly meeting their high-priority advisor needs.

MEASURE IMPACT

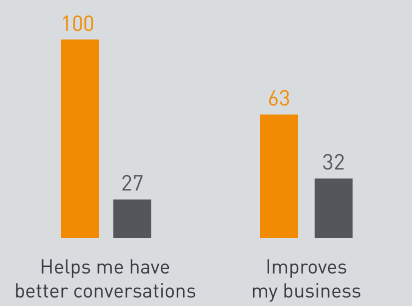
IMPORTANCE How important the attribute is to advisors **VS.** **PERFORMANCE** How top firms scored

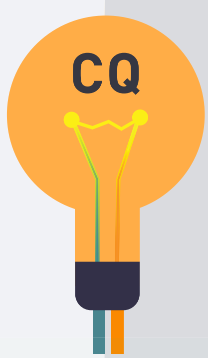
TOP MEASURES WORTH A CLOSER LOOK

Making well-informed decisions

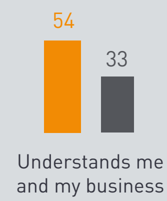


Achieving personal success





Feeling valued



PERSONALIZATION POWERS CQ

Connection quotient (CQ) is a measure of the degree to which the dialogue between asset managers and advisors creates mutual benefits. It's not just a result of the sales team, or the marketing team, or the other departments. It's a result of the whole firm's efforts. It's also a result of how much advisors are investing in the connection.

In our research, we found that the first step is to actually get through to advisors—to have them take a meeting, open content, attend an event or visit the website. Once that contact occurs, it's imperative to share relevant, valuable content and offers that reflect a true dialogue with the advisor. Doing so ensures continued access, and creates real value. We've summarized this relationship between the asset manager and advisor in a new metric: the connection quotient (CQ).

Defining the Connection Quotient

CQ is a measure of the degree to which the dialogue between asset managers and advisors creates mutual benefits (see figure 1). From their side of the relationship, advisors benefit from:

1. **Making well-informed decisions:** At the end of the day, advisors exist to help their clients reach their investment goals. In this pursuit, advisors have to make well-informed decisions about portfolios and the actual advice that they share with their investors. The more effective the asset manager is in supporting these decisions, the higher the CQ.

2. **Supporting personal success:** Advisors, like any other professionals, yearn to be successful in their careers. They aspire to attain financial success, mastery of their craft, and recognition from their peers and communities. When advisors perceive that asset managers have their personal success in mind, CQ is likely to be higher.

3. **Feeling valued in the relationship:** "Partnership," "respect," "trustworthy" and "loyal" are words that advisors commonly use when describing their best relationships with asset managers. The more these qualities are exhibited in a relationship between an asset manager and an advisor, the higher the CQ.

Asset managers benefit from having a higher CQ, too. In our research, we found that in high-CQ relationships, financial advisors will continue, or even increase, their level of investment; show higher brand recognition and loyalty; express an increased openness to taking meetings and calls; and show a willingness to try new products. The most crucial takeaway here is that both advisors and asset managers benefit more when CQ is higher.

Framed this way, the implications of this symbiotic relationship are subtle, but their consequences reverberate across the firm:

1. The relationship between advisors and asset managers isn't just a result of the pivotal role played by the sales (or national accounts) team. The whole organization, including marketers, portfolio managers and product managers have to cohesively play their parts to drive CQ.

2. The goal of the interactions between advisors and asset managers—driving product performance notwithstanding—is to drive CQ. That means that every interaction should be helping advisors make well-informed decisions, nudging them toward their personal success or ensuring that they feel valued. And this would be highly aligned with a fiduciary standard of service as well.

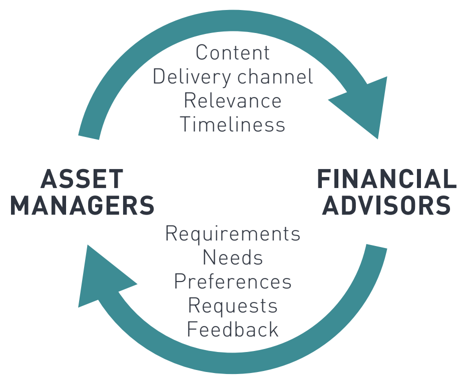
3. The more personal, customized or personalized the interaction, the higher the opportunity to drive CQ.

4. CQ is not just a measure of mutual benefits with advisors. It can be extended to professional buyers at home offices and consultancies as well.

DRIVING THE CONNECTION QUOTIENT BENEFITS ASSET MANAGERS AND FINANCIAL ADVISORS

BENEFIT FROM:

+ Retaining/ increasing business
+ Raising brand recognition
+ Receiving client referrals
+ Increasing access
+ Expanding willingness to try new products



BENEFIT FROM:

+ Making well-informed decisions
+ Achieving personal success
+ Feeling valued

Figure 1: The connection quotient measures how the dialogue between asset managers and advisors creates mutual benefits.

A low CQ (red) indicates that a firm is not differentiating itself from the industry in many of an advisor's most important personalization attributes. A medium CQ (orange) indicates that the firm may differentiate itself from the industry on some of the attributes. However, it's likely that the firm's differentiation is on the attributes that aren't important for advisors. A high CQ (green) indicates that a firm is differentiating itself highly among the most important attributes and approaching levels that are consistent with top-performing firms in other industries.

What Matters to Financial Advisors

Perhaps the most stark and immediate finding from our research is that the industry as a whole has a low CQ. In general, we found that asset managers fall short of meeting advisor expectations in each of our three key drivers of CQ.

Financial advisors' connection to asset managers is strongest when firms are perceived to help them make more informed decisions (see figure 2). In examining the top three ways in which asset managers are perceived to help financial advisors, we find opportunities for firms to perform better in areas that are of the highest importance to advisors. (The Performance Index is a measure of how well a particular firm performs compared to the industry average, while the Importance Index is a measure of how important advisors perceived a particular personalization attribute to be.)

Asset managers expend considerable resources to help advisors understand their views and help them explain the role of specific products in a portfolio, yet research suggests that even firms that advisors selected as providing the best service are missing the mark and aren't standing out from the crowd. We believe that this troubling incongruence may be an illusion. According to one of the survey respondents, "They have great products and I have invested a significant amount of my portfolio with them, so they must also be providing me value." Drilling down into performance ratings for these firms on detailed attributes (such as "prepares me to speak knowledgably about their company's funds and investment capabilities") sheds light on this story.

TOP THREE WAYS ASSET MANAGERS CAN HELP ADVISORS MAKE INFORMED DECISIONS

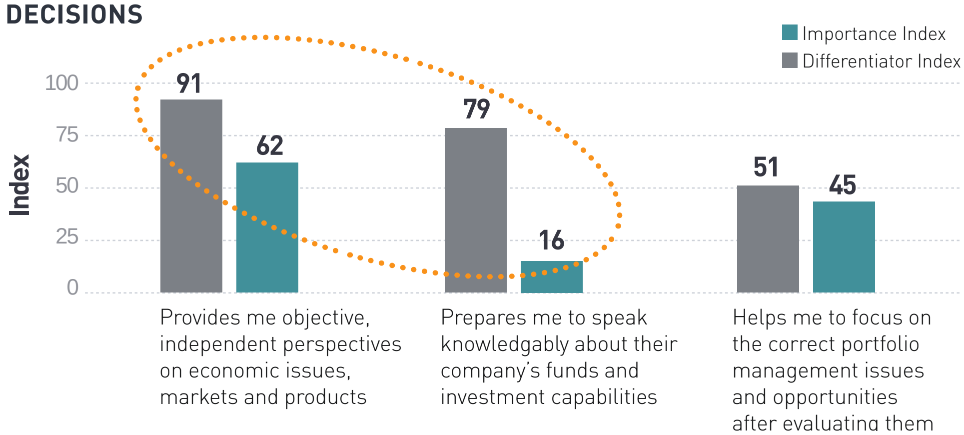


Figure 2: Asset managers can help advisors make better decisions by providing them with timely information and knowledge.

Our research tells an even more intriguing story when it comes to asset managers' ability to help advisors succeed in their careers (see figure 3). Nearly all firms fall short on differentiating themselves from others when it comes to the most important attributes: "helping advisors serve their clients better" and "helping advisors think about how to improve their business." First, this finding confirms the mixed reviews on business-building ideas and value-added programs that have been launched to date. Second, and more importantly, it's exactly these attributes that wholesalers are expected to address in their "consultative selling" efforts.

TOP THREE WAYS ASSET MANAGERS CAN HELP ADVISORS SUCCEED

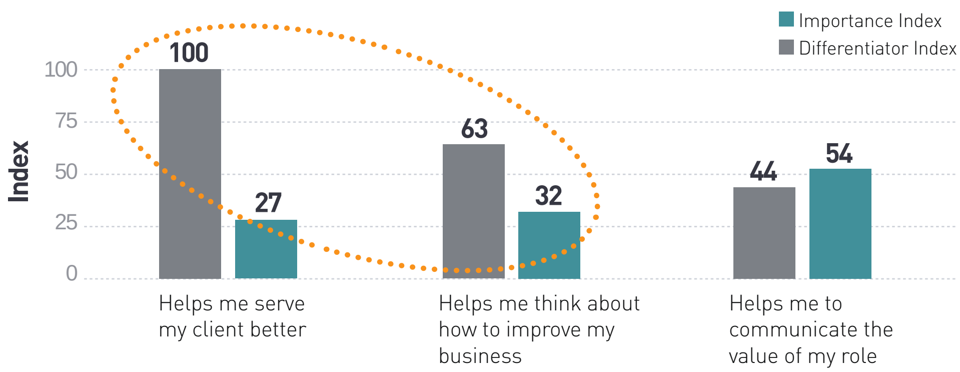


Figure 3: Success for advisors happens when asset managers help them improve their business and show value to their clients.

That, coupled with the gap in "understanding my business and clients," should prompt us to ask ourselves about the root causes of this miss. Could it be that asset managers focus too heavily on selling their product sets and not enough on what their partners (financial advisors) deem important? Could the commoditization of products be the underlying root of this behavior, forcing sales and marketing teams to focus more on product performance and less on building mutually beneficial relationships? Our belief is that asset managers must differentiate themselves from the pack by focusing on CQ-increasing, consultative efforts and not through a transactional, product-based relationship.

TOP THREE WAYS ASSET MANAGERS CAN HELP ADVISORS FEEL VALUED

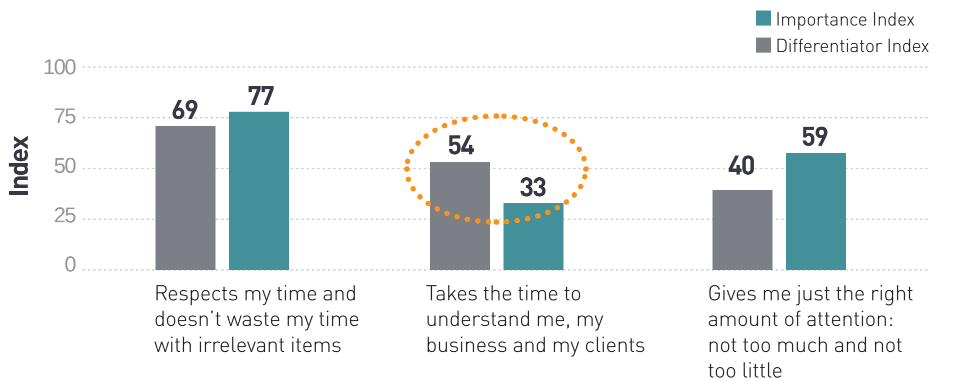


Figure 4: Asset managers should respect advisors' time while taking time to understand their business.

To their credit, but contrary to asset managers' beliefs, they're beating advisor expectations on respecting their time. On average, small and large firms are scoring about 5% higher than medium-sized firms in this attribute.

Most asset managers we speak to are worried that they're throwing too much information at advisors. For example, we know of several asset managers who have undertaken initiatives to reduce the number of emails that they send to any particular advisor. However, based on this feedback, asset managers are actually doing a pretty good job of giving advisors the right amount of attention, and they don't think that it's very important, anyway.

On the other hand, asset managers really seem to be missing the mark on using that time to understand advisors. Asset managers are likely too transactional and one-sided, and subsequent communications don't reflect the understanding that asset managers already have. It's this idea of a true back-and-forth dialogue that lies at the heart of CQ, and consequently the heart of personalization.

Interaction Methods That Increase Benefits to Advisors

We also believe that delivering on the basic types of personalization could yield more marginal value for firms than the more sophisticated approaches (see figure 5). Interestingly, our analysis of the data from the survey generally confirms our hypothesis: Advisors recognize and value a more cohesive experience with asset managers.

DEGREE TO WHICH COMMUNICATION METHOD CONTRIBUTED TO CQ

COMMUNICATION METHODS (ranked by relative benefit to advisors)	Helps me make well-informed decisions	Helps me succeed	Helps me feel valued
Creates a dialogue with me across channels; one thing builds on another	◕	●	●
Anticipates my needs; gives me relevant information before I ask for it	◕	◕	◕
Sends timely communications; right information at the right time	◑	◕	◕
Addresses needs/questions on the very first try	◑	◕	◕
Uses the best method of communication with me, avoids others	◑	◕	◑
Engages me in exclusive events and programs	◑	◕	◕
Makes it easy for me to get the information	◑	◕	◕

Advisors recognize the value of a more cohesive approach

Figure 5: This chart shows the simple and sophisticated ways in which thoughtful interactions are linked to CQ.

What Does Good Look Like?

There are certainly bright spots exemplifying the amazing moments that left lasting impressions with advisors. These testimonials help the industry visualize what a high-CQ moment can look and feel like:

+ "Early in my portfolio management career, [name] became my mentor regarding the construction and ongoing management of individual portfolios, [and] taught me the importance of building a model and then sticking with a discipline, which I have done for 22 years."
+ "I have a third-party asset manager. They reach out to me about once a quarter by phone while giving me monthly e-mail updates that talk about their economic and investment outlooks. This has worked out very well because of the consistency and value of the advice."
+ "They are willing to support my team with seminars, information and small meetings. They're a trusted partner."

Asset managers who are doing these things today are mostly relying on their sales teams as the hub of these communications, but we've seen that this can be enhanced to include other channels such as events, emails, websites, social media and the like. Other industries such as pharma have been moving to this multichannel approach (not omnichannel yet) with very promising economic results.

ASSET MANAGERS WITH TOP CQ

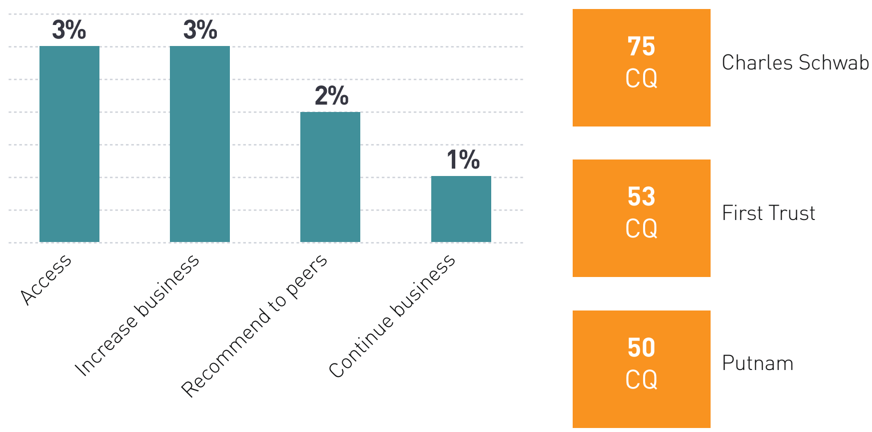


Figure 6: Compared to peers also providing strong service, here's how much more the top-CQ asset managers could benefit.

According to our research, the three firms with the highest CQ are Schwab, First Trust and Putnam. Our quantitative and qualitative analysis suggests that they rose to the top because:

+ Financial advisors think that Schwab does an exceptional job at "helping them serve their client better"—their key differentiator. The average rating for Schwab in this attribute was about 12% higher, on average, than for other top firms. Perhaps Schwab (added to the study as a top ETF manager) benefited somewhat from the similar services that it offers to advisors through its platform as well.

+ Financial advisors think that First Trust differentiates itself from other top firms by providing objective, independent perspectives on economic issues, markets and products. On average, advisors rated First Trust 20% higher than other top firms on this attribute. First Trust, also added as an ETF manager, has a significant number of advisors who follow the company's chief economist Brian Westbury. Perhaps that positively impacted its CQ score.

+ Putnam's key differentiator is how the firm cares about the advisors' business and career success. Putnam is rated, on average, about 13% higher than other top firms on this attribute. Putnam has been known for its special programs, such as FundVisualizer, and its efforts to help advisors use digital tools—social media, in particular—more effectively. This may have positively impacted Putnam's CQ score.

While these aren't all big brands, by our calculation they appear to be providing advisors higher value than their peers—connecting or "punching" above their weight, so to speak.

While Schwab, First Trust and Putnam had the highest CQs in our survey, other firms were more frequently noted as providing the best overall service. The three firms that were selected by almost half of the respondents as providing the best service overall—Capital Group, Blackrock and Franklin Templeton—are known to invest significant amounts of resources to help financial advisors. In addition to being large, successful brands, they're also among an exclusive club with a lion's share of advisor portfolios, and they have brand and asset momentum among advisors. We contend that if these firms further enhanced their CQ, they would further enhance their already strong brand and portfolio positions.

How to Improve CQ

In a time of rapid change, innovation, heightened competition and squeezed profitability, we believe that there's a greater need to focus on mutual benefits between asset managers and advisors. This CQ can be enhanced by even simple coordination across communication methods, but our analyses also suggest a heightened opportunity for an even more dynamic, personalized approach.

This means that asset managers should continue their journeys to improve the quality of their data, leverage it for understanding the needs of advisors, and carefully use channels for interacting with advisors. But there are other subtle changes in their mindset (or approach) that could change the way that asset managers view their distribution approach and bring cohesion to their efforts:

1. **Measure the success of personalization by CQ:** The goal of interactions with advisors should be to help them make more informed decisions, help them succeed and help them feel valued. These are compatible with the industry trends of solution-oriented investing, consultative selling and a fiduciary standard of service.

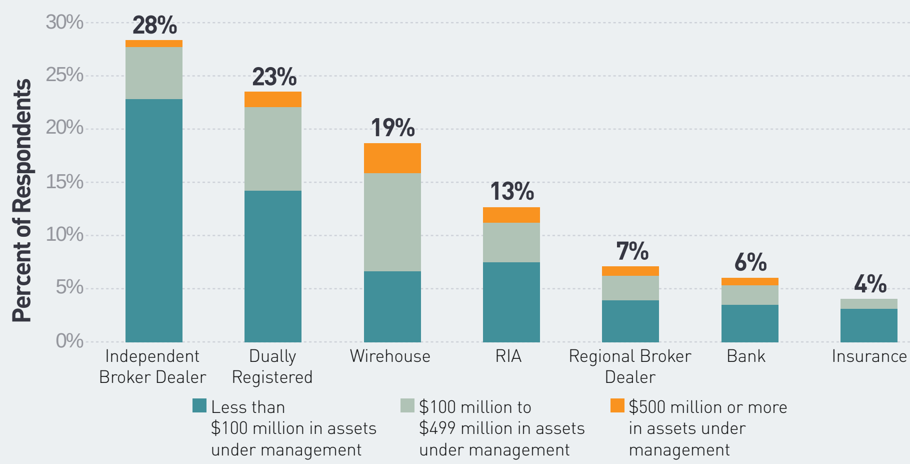
2. **Master the basic communication methods:** The highest CQ, and thus the highest benefit for advisors and asset managers, is created when the basic communication methods are executed well. Targeting the right advisors and matching relevant messages with interest and channel preferences is easier said than done. Those who achieve more sophisticated, artfully sequenced, omnichannel approaches are likely to further stand out from their peers.

3. **Increase cohesion with orchestration:** The sales team, wholesalers and national account managers are the orchestrators of an asset manager's relationship with advisors and home office executives in their territory. In many respects, they "call the plays" on everything from focus lists to marketing campaigns and invitations to events. Asset managers should embrace this mindset and empower and guide sales in this role for certain segments of advisors, while also working to make operations easy and seamless. But to make this work, asset managers have to work through the

messy, unruly and nitty-gritty details related to truly increasing cohesion, collaboration and teamwork across their organizations. They also should become comfortable with salespeople playing the role of orchestrator and calling the shots.

Our research has provided a new lens through which to view the advisor/asset manager relationship, and has helped quantify how and why to build CQ. In subsequent publications, we'll further explore how CQ varies across different types of advisors, how top firms are succeeding today, and how best to pursue and build these capabilities going forward. In the meantime, asset managers would be well served to look to their current practices and ask, What's my CQ?

METHODOLOGY



n=364 advisors with discretion over their portfolios. Respondents included mutual funds and ETF users.

Data for this study reflects survey responses from 366 financial advisors. The sample represents the U.S. financial advisors with portfolio discretion, and reflects various channels, levels of assets under management and a mix of mutual funds and exchange traded funds (ETFs).

Survey respondents identified a firm that they perceive as providing the best service. They then compared the performance of their selected firm to that of other firms across almost 20 variables. Respondents also rated the importance of each of these variables on a scale of one to 10.

The identification of the firms in this report is for informational purposes only based on the survey results and is not intended to be and does not constitute an endorsement of any firm, or its services or offerings. ZS is not affiliated with any of the identified firms.

For more information, please visit www.zs.com/cq.

About the Authors

Jason Brown is a principal in ZS's Boston office and the leader of the firm's financial services practice. He has helped numerous clients define and install successful marketing and sales strategies, and his diverse experience spans many industries, including insurance, banking and asset management. Jason has extensive project experience in go-to-market strategy and implementation, market research, sales process design, compensation design, and sales force sizing and deployment. He has contributed to several financial services and sales management publications, and has facilitated workshops at LIMRA marketing and sales conferences. Jason holds a B.A. in economics and statistics from the University of Chicago and an M.B.A. from the MIT Sloan School of Management.

Rubesh Jacobs is an associate principal based in ZS's Boston office. Rubesh leads the asset management consulting practice, bringing his deep knowledge of marketing and sales in the asset management and insurance industry. He partners with a strong team to deliver advice to clients, develop new, customer-centric insights based on ZS's rich heritage of research and innovation, and grow the business. Rubesh joined ZS in 2017. He holds a bachelor's degree in computer science and economics from Ohio Wesleyan University, and an M.B.A. from Fisher College of Business at Ohio State University.

About ZS

ZS is the world's largest firm focused exclusively on helping companies improve overall performance and grow revenue and market share, through end-to-end sales and marketing solutions—from customer insights and strategy to analytics, operations and technology. More than 5,000 ZS professionals in 22 offices worldwide draw on deep industry and domain expertise to deliver impact for clients across multiple industries. To learn more, visit www.zs.com or follow us on Twitter and LinkedIn.

For more information, please contact:

ZS
+1 855.972.4769
inquiry@ zs.com

www.zs.com