Communicating Your Value Proposition to Improve Client Understanding and Trust

WHAT ARE YOU REALLY SAYING & WHAT ARE THEY REALLY HEARING?
Many debates roil the investment management business today, but at least one thing is certain: The financial advisor channel has demonstrated time and again that advisors have made it a top priority to earn their clients’ trust.

Yet, despite these efforts, it is obvious that earning and keeping client trust is a more pressing priority than ever for advisors. Progress certainly is being made. Tougher industry regulations and calls for increased transparency have given investors back some of their confidence. But there is more work to be done, and much of it falls to you, the advisor, to accomplish.

State Street Global Advisors’ research indicates that some advisors still come up short when it comes to helping clients understand the real value of the services they provide. This can make investors feel uneasy or even suspicious about whether an advisor is promoting their best interests when making investment decisions.
This led us to ask how investors really think, feel and behave when it comes of financial advice and whether they feel advisory services are worth the price. The goal in asking was twofold:

- To give you an objective understanding of how investors feel about this important topic.
- To help you gain and retain clients’ trust and loyalty through a focus on engagement and integrity.

Additionally, we wanted to understand how investors feel about the value of financial advice and uncover new ways to relate your fees to the services you provide so that the relationship between the two is easier for your clients to comprehend. After all, paying for your financial advice is their investment in a relationship with you. How you convey the value of your services, explain fees and connect them to your value proposition can make or break that relationship.

The good news is that effectively communicating your value does not have to be difficult. By following the simple, five-step strategy outlined here, you can help clients better understand the value of your services and clarify fees.

**FIVE-STEP STRATEGY**

to Help Clients Better Understand the Value of Your Services

1. Be upfront, consistent and concise
2. Ensure compensation
3. Assess your clients’ financial literacy
4. Demonstrate your value proposition by protecting theirs
5. Critique your relationship
What Are You Really Saying & What Are They Really Hearing?

**STEP 1**
Be Upfront, Consistent and Concise About Everything ... Including Fees

Take the lead and address your fee or compensation as part of your overall value proposition, and link that proposition to your services before fees enter into the conversation. Don’t wait for clients to inquire about fees.

Ensure that your initial fee discussion happens at the start of any new client relationship and is not limited to a one-time event. An ongoing discussion will improve the likelihood that clients clearly understand the fee structure and what services they are receiving in return.

**Figure 1: Discussing Fees with Clients**

- I have discussed fees with my clients: 92% Financial Advisors
- My advisor has discussed fees with me: 67% Individual Investors

Q: Do you discuss fees and/or commissions with your clients? Q: Does your advisor discuss fees and/or commissions with you?

At the same time, don’t shy away from placing your fees in context by benchmarking your compensation against that of other advisors. There is a direct correlation between comprehension of advisor fees and trust.

**Figure 2: Example of Fee Disclosure Relative to Industry Average**

Assets per Year (%)

- 2.0
- 1.5
- 1.0
- 0.5

Range of Fees in Industry

Our Fees for Your Account

Hypothetical. For illustrative purposes only.
Source: SPDR University: Discussing Fees With Clients, James Grubman, Ph.D.

**STEP 2**
Ensure Your Clients’ Comprehension of What You’ve Told Them

Although advisors are significantly more likely to assume that their clients grasp how they are compensated, one in three clients do not completely understand the compensation arrangement.

The key to ensuring that your clients understand is clear and concise communication. But you also need to take the extra step to assess how much of the information they absorbed. After providing details on your fee structure, ask questions so that clients can repeat the information back to you. Supplement this information with easily understood written materials or online references that can be reviewed later on.

There is a great deal of evidence to support the possibility that a discrepancy exists between what clients may think you’ve explained and what you actually did say.

**Figure 3: Comprehension of the Fees and/or Commissions Being Charged**

- My clients completely understand the fees/commissions being charged: 53% Financial Advisors
- I completely understand the fees/commissions being charged: 33% Individual Investors

Q: How well do you think most clients understand the fees and/or commissions being charged? How well do you understand the fees and/or commissions being charged?
STEP 3
Assess Your Clients’ Financial Literacy

Every investor comes into financial discussions with a different level of comprehension. Just as having a client repeat back to you the details on fees and services assures shared understanding, assessing his or her financial literacy upfront lets you tailor the information you give them. A common mistake is to assume that because someone is highly educated he or she also must be financially savvy. But the two do not always go hand-in-hand. People tend to overestimate their financial literacy.

State Street’s Center for Applied Research developed a financial literacy assessment that can show you how much investors understand when it comes to financial products and investment concepts. Knowing how financially literate your clients and prospective clients are can allow you to fill in knowledge gaps with additional information to ensure effective communication about both fees and value. When a client comprehends the specifics of their own financial plan well enough to communicate them to someone else, the plan becomes their plan — and they begin to take ownership of it.

Figure 4: Average Global Financial Literacy Score

<table>
<thead>
<tr>
<th>60</th>
<th>70</th>
<th>80</th>
<th>90</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failing</td>
<td>Poor</td>
<td>Mediocre</td>
<td>Good</td>
<td>Excellent</td>
</tr>
<tr>
<td>61%</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>


STEP 4
Demonstrate Your Value Proposition by Protecting Your Clients from Unhealthy Decision-Making

When faced with uncertainty, many investors exhibit behavior that appears to be at odds with their stated objectives. An experienced advisor can help keep clients focused on rational decision-making to maintain alignment with their financial goals and protect long-term security.

Successful financial plans, when done well, are disciplined, follow a well-thought-out process and are objective so that they reduce behavioral biases and emotions.

Investors attach a value premium on advisors who lead with their financial planning value propositions. Frame your value around being their investment coach. It is the services you provide to your clients that will differentiate you from other professionals.

This means bringing strategic priorities in line with what your clients want most: personal performance. Define a formula for sustainable returns to meet their unique goals, align your fees with the value you deliver and be fully transparent so your client can appreciate that value.

Figure 5: Most Important Factors in Selecting a Financial Advisor

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is upfront with me and represents situations truthfully</td>
<td>97%</td>
</tr>
<tr>
<td>Understands my financial needs and goals</td>
<td>96%</td>
</tr>
<tr>
<td>Has a high level of integrity</td>
<td>95%</td>
</tr>
<tr>
<td>Acts and performs consistently</td>
<td>95%</td>
</tr>
<tr>
<td>Welcomes open and honest communication</td>
<td>95%</td>
</tr>
<tr>
<td>Has my best interest at heart</td>
<td>95%</td>
</tr>
<tr>
<td>Follows through on goals and promises</td>
<td>91%</td>
</tr>
<tr>
<td>Works for a reputable firm</td>
<td>90%</td>
</tr>
<tr>
<td>Knowledgeable about new, innovative products</td>
<td>89%</td>
</tr>
<tr>
<td>Keeps me informed on a regular basis</td>
<td>89%</td>
</tr>
<tr>
<td>Is a top performer</td>
<td>84%</td>
</tr>
<tr>
<td>Charges low fees and/or commissions</td>
<td>76%</td>
</tr>
<tr>
<td>Is highly recommended by a family member/friend</td>
<td>61%</td>
</tr>
</tbody>
</table>

Q: How important is each of the following to you when selecting an advisor? Source: State Street Global Advisors’ Survey, “Financial Advisors’ Value Proposition and Compensation,” August 2014.
What Are You Really Saying & What Are They Really Hearing?

**STEP 5**
Critique the Relationship with Your Client and Encourage Reciprocity

Advisors are more than twice as likely to say that they reach out to clients for feedback as clients are to say they’ve been asked for feedback from their advisors.

Check in regularly with your clients to find out what they think is working, what is not and why they feel this way. This not only gives you valuable information to improve your practice but also lets clients know you’re responsive to their needs. Don’t be afraid to conduct your own marketing research with your clients. It can give you an understanding of what they’re looking for and how well you’re delivering on those objectives. It can also provide insight on everything from whether or not to add additional services to what macro trends are on your clients’ minds.

**Figure 6: Reaching Out to Clients for Feedback**

| I have asked my clients for recommendations for how to improve our relationship. | 80% | Financial Advisors |
| My advisor has asked for recommendations for how to improve our relationship. | 33% | Individual Investors |

Q: Have you ever asked your clients for recommendations about how to improve your relationship? Has your advisor ever asked you for recommendations about how to improve your relationship?


**Why Addressing Both Sides of the Value Equation Is Critical**

Communicating your services and fees (and the relationship between the two) clearly is about much more than just money. It’s about building trust, demonstrating value and proving to your clients that a partnership with you is a wise long-term investment.

Clients are thinking about your services and fees, but often do not see the link between them. Your breadth of experience, lessons learned, consultative approach, certification and ability to coach clients are important and part of your value.

By talking comprehensively about what you can and do deliver with your services — the savings accrued, the many risks avoided, the hidden opportunities uncovered, the security of having a viable financial life plan and much more — a client will see your value to him or her in its fullest extent.

Clients who understand the fees they pay are more likely to think positively about their advisor than those who don’t understand. They are also more likely to believe the fees an advisor charges are fair and that their advisor provides objective advice without regard for his or her commission. Additionally, more well-informed clients are more inclined to refer friends and family to their advisor.

Following these five simple steps can mean a lifetime of improved client relations. They will also help you achieve an enviable reputation among your peers and attain asset continuity in your practice.
Research Methodology

A nationally representative sample of 300 financial advisors and 300 individual investors participated in an online survey undertaken by State Street Global Advisors Practice Management and a2bplanning in August 2014.

The advisor sample is representative across different channels: independent broker/dealer, multi-platform/direct, national broker or wirehouse private bank and registered investment advisor, all with average accounts under management of at least $500,000. The investor sample is representative across both net asset bands (below $1 million; $1 million to $5 million; and above $5 million) and age bands (25 to 39; 40 to 49; 50 to 59; 60 to 69; and 70 and older) Quotas were established to ensure the sample reflected the investment landscape today. All statistical significance is reported at 95%.

The surveys explored nearly identical themes, which allowed us to compare financial advisors’ presumptions about their clients against how investors actually feel. The data collected from this survey were segmented and analyzed to extract insightful and actionable opportunities.

Questions were grouped into the following categories:

• How well do investors understand financial advisor compensation?
• What role do fees play when an investor is choosing a financial advisor?
• Does understanding fees help or hurt how an investor views a financial advisor?
• Do investors think that the fees financial advisors charge are fair?

To further contextualize our learning, we also conducted qualitative research with a range of leading industry, business and economic experts to help inform our key findings and practice techniques. They included:

• Phone interviews with 14 subject matter experts.
• In-home interviews with investors with a household portfolio of at least $150,000. If investment decisions were shared with a spouse, the spouse was included in the interview.

About Us
For nearly four decades, State Street Global Advisors has been committed to helping our clients, and the millions who rely on them, achieve financial security. We partner with many of the world’s largest, most sophisticated investors and financial intermediaries to help them reach their goals through a rigorous, research-driven investment process spanning both indexing and active disciplines. With trillions in assets, our scale and global reach offer clients access to markets, geographies and asset classes, and allow us to deliver thoughtful insights and innovative solutions.

State Street Global Advisors is the investment management arm of State Street Corporation.

* Assets under management were $2.2 trillion as of September 30, 2015. This AUM total reflects approximately $25 billion (as of 9/30/15) with respect to which State Street Global Markets, LLC (SSGM) serves as marketing agent; SSGM and State Street Global Advisors are affiliated.

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The cornerstone of our business is helping advisors succeed. We are inspired to make a difference by delivering a comprehensive practice management platform offering actionable insights and consultative solutions.

Our programs are grounded in proprietary research and leverage the latest thinking and trends from both industry and academia. We offer a diverse range of capabilities that address forces shaping the investment landscape; best practices to drive results and optimize your business; conversation starters to guide and engage with clients; and continuing education to hone techniques and accentuate your value.