As defined contribution retirement plans rapidly take the place of defined benefits ones, plan sponsors are confronted with an array of complex challenges to designing plans that deliver appropriate retirement saving opportunities to their employees. These considerations in turn mean you face your own set of challenges in matching your services to the increasingly sophisticated needs of plan sponsor clients. For many advisors, the economic mainstay of their practice is based on an ability to connect services they can provide with the specific needs and goals of a plan sponsor.

Yet beyond just ensuring a match between your services and plan sponsors’ needs/goals, you also must consider a unique set of additional challenges. Among those that frequently are mentioned in our interactions with advisors are these four.

- How do I create and maintain a relevant value proposition that will resonate with a potential client?
- How do I establish and adequately communicate a fee structure?
- How can I transition up market?
- How can best advisory practices be used by advisors of different plan sizes?

The good news is that while there is no single solution that will reconcile your offerings with plan sponsor needs or provide absolutely infallible guidance on other key concerns, incorporating certain best practices can give you an effective “toolbox” to address both sets of challenges.

This paper will look at several types of challenges advisors have told us they face. These suggestions offer actionable, potentially best practices that can be easily implemented, and which share the goal of positioning you to maintain and grow a practice that makes sense for you and your clients. In particular, it explores and encourages the idea of developing advisory best practices across the four specific areas noted above.
VALUE PROPOSITION

In simplest terms, your value proposition is a positioning statement that explains what benefit you provide, for whom, and how you do it singularly well. It’s not only the keystone of your marketing efforts and growing your business, it’s everything.

The best ones typically incorporate two key components. First, they're client-centric, answering the questions “What are you servicing?” and “What is the main benefit you provide?” Second, they speak to your authenticity, addressing the questions “What sets you apart from everyone else?” and “How do you deliver on your promise to provide value?” Any value proposition you have must offer a clear and compelling answer to these questions.

But what does this translate to when making a pitch? In most cases, it boils down to you showing a potential client that you understand what they want and can deliver it. From a plan sponsor’s perspective, this often means something along the lines of providing a performance model that can help participants on the road to long-term financial well-being, by focusing on wealth generation, downside risk mitigation, income, and liability management.

Assuming this is true for most plan sponsors, one of the top priorities for an advisor should be to ascertain in what ways a plan’s existing offerings can be improved. This, along with your fee structure, is largely your bottom-line value proposition: that you can help deliver an optimal mix that covers the spectrum of employee investment objectives.

Your value proposition obviously must be viable, but also concise and to the point, perhaps no more than three sentences. The less a potential client has to unpack when considering the value you bring to the table the better. To form an idea of just how comprehensive your value proposition is, ask yourself these three questions.

• Is it strengths-based? Specifically, is it easy to grasp quickly? Does it resonate with your intended audience? Is it outcome-based and factual?

• Is it compelling? Make a frank and honest reality check: are you seeing increasing client referrals or income from existing relationships? Are you finding centers of influence and expanding your network from existing relationships?

• Is it effective? Your own results provide the answers here. Are you increasing awareness of your brand and building a differentiating reputation? Is your story an easy one to deliver?

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A final point regarding this all-important tool: test it! Put yourself in a client’s shoes and remember that your value proposition should explicitly reflect clients’ values as well as provide a logical reason for why they (and new ones) should trust you. It’s all about being able to articulate what they have to gain from an association with you and how you’re different from your competitors.
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State Street Global Advisors

Establishing a fee structure is one thing, communicating it effectively and ensuring it is understood is another. In the matter of the first, most advisors already have an excellent idea of how their pricing works. After all, they’ve spent a lot of time thinking about it, comparing pricing mechanisms, service offerings and consulting opportunities. They know what their value proposition is and how it informs the differentiated services they offer, the resources they need to acquire and expend on behalf of a client, and in what way they prefer their efforts to be compensated.

Where things are potentially much less clear is in how these fees are communicated to and understood by plan sponsor clients: There is concern that some may not fully grasp an advisor’s fee structure. Sometimes this is because the all-important, up front advisor-plan sponsor conversation regarding fees was either glossed over or put off; other times it may be that there was no follow-up conversation to ensure comprehension and acceptance by the client; and in still other cases, the perceived complexity of an advisor’s fees led to misunderstandings on the part of a client. Above all, keep in mind the increased scrutiny of today’s regulatory landscape: It’s more important than ever to be completely clear with clients around your fees and value add.

With these caveats in place, there are a number of recommended best practices around communicating fees that may reduce the chance of an advisor finding him or herself in this situation. These require no extra effort or cost on the part of either party, only a willingness to articulate clearly, listen and ensure understanding. At the same time, these practices can greatly enhance the likelihood that a relationship will get off to a good start with a mutual understanding regarding fees.

In communicating your fee structure to a client, the overarching goal is to ensure their understanding of what you propose. This usually comes down to three key steps: 1) what you say to them; 2) how they hear it; and 3) how it is conveyed back to you by them. This third step, as crucial as it is, almost certainly will be overlooked if the advisor is not proactive in initiating it.

- Make this discussion a separate conversation in which you are as upfront, consistent and concise as you were in explaining your value proposition. As difficult as it may be to imagine (from an advisor’s point of view), several studies show there is a marked divergence in opinion between advisor and client as to whether fees were even discussed; a separate conversation ensures they will be.
- Make absolutely sure the client understands what you are saying. Again, as commonsense as it may appear, this is not always the case. Ask questions of the people you’ve just addressed to ensure they understood you. If they respond correctly (i.e., more or less repeating what you said), you’re on track. If not, clarify.
- Gauge your client’s financial literacy. Here again, what seems obvious to many advisors may be just the opposite. Not every plan sponsor has the same degree of financial understanding as one may think, and there is anecdotal evidence that there may exist a tendency among some to overestimate their savviness. The more they know about their plan, their current and long-term expectations, and overall goals, the better for all concerned, you, the client and their employees.
- Know your client’s plan interests better than any other financial professional. Remember that the services you provide should differentiate you in a positive way from other professionals. If you are seen as being both understanding and protective of a client’s interests, that implies a high level of trust, which may open the doors to expanded services you can offer them or additional networks and centers of influence for your practice.
- Evaluate the relationship you have with the client. As with the variance that exists between advisors and plan sponsors regarding a conversation about compensation, similarly one exists on the subject of how engaged an advisor is with a client. One way to cement that relationship is to critique the two-way communication channel between you and the client. Ask them for specific recommendations on how you can improve a relationship or take it to the next level. Find out what’s working and what’s not. Do this on a regular basis and you’ll soon have a clear understanding of how a client evolves over time what they are looking for and how you can help make it a reality.
As a closing thought on the topic of fees, we suggest one other action: Make sure they’re aligned with the value proposition you put in front of a client. The answer to which a plan sponsor will consider more in making a decision, value or fees, is rarely as obvious as one may think. If what you offer is distinct from and an added value to what others provide and you communicate this effectively, the subject of equitable compensation for these services is made that much easier. As much as plan sponsors are acutely aware of the importance of cost, they also want value. Tying the two together in your conversations and marketing is possibly the most important thing you can do to close a deal.

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• Increase your product and vehicle information about product lines and markets. Done well, this adds up to a comprehensive knowledge base fast.

• Invest in and master the best technology you can afford and amplify your social media presence. In general, the tech learning curve is not as daunting these days as it was before, and what were once prohibitively expensive, complicated programs are now affordable and more intuitive.

The bigger and more sophisticated your clients are, the more they’ll expect you to have this skill set. At the same time, plan sponsors also rely on more than word-of-mouth references. They’ll find you sooner if you are accessible through major social media platforms. A website is all but mandatory these days, and perhaps a blog is useful, but the enhanced connectivity offered by Facebook, LinkedIn and even Instagram or Twitter offer opportunities to scale your client base. (Of course, if you work for a broker/dealer or wire house, you’ll need permission ahead of time before setting up independently on social media.)

• Be willing to expand your service menu. In many cases, transitioning to a different client base inherently means you’ll have to do so anyway. Rather than trying to master every conceivable aspect that potentially confronts up market plan sponsors, instead be prepared to offer an array of additional, specific services that a plan sponsor has indicated it wants. These may include items beyond those you currently provide. Trying to cover everything from the start is likely to end in failure. Focusing on how to address specific additional needs or wants a potential client has mentioned ahead of time is much more realistic.

• Increase your product and vehicle knowledge. These can be strong selling points that differentiate you. Larger
plan sponsors are increasingly more complex, and will expect you to have a mastery of their environment already. This learning curve is much better mastered ahead of time than trying to catch up once you’re on board.

• Consider offering “à la carte” pricing as opposed to imposing a broad fee on a client. Think fee versus commission versus flat dollar. Move away from soft dollar, less transparent fee structures to an easily understood, transparent fee model. In more complex plans, this tends to be the norm rather than the exception. Remember that larger plans generally have several advisors from which to choose. You’ll want to stand out as being flexible with your fee model.

• Finally, be prepared to consider thinning your current client base. If your strategy is to incorporate a hoped-for up market client base into your existing one – in which case you will need sufficient staff and other resources to services both groups equally – you may find yourself stretched too thin. Once you’ve begun to acquire more substantial plan sponsors and have had time to see what advising a mixed client base truly requires, you may be better off farming out some down market clients and concentrating more on the up market ones that ultimately generate more revenue and can more easily attract other similar-sized plan sponsors to your practice.

As we mentioned above, relative to putting your fees within the context of your value proposition, the same holds true here. Be prepared to underscore your unique value proposition and how it applies equally to larger plan management. If you are vague on aspects of large plan advisory services in which you have little or no experience, it will be noticed. If a question arises that you cannot speak to from direct experience, so be it: reply with what you have the capability to do, and remember that a well-crafted value proposition can cover a multitude of uncertainties.

We have arranged the above best practices across three broad topics: value proposition, fees and transitioning up market. There are, of course, many other suggestions that can be added to any of these sections. By the same token, there are certain best practices we have identified that encompass one or more of these aspects, a few of which we have outlined below. These are broad enough to apply to advisors of all sizes and interests, and are offered here as “big picture” items, things you’ll likely want to stay on top of at any point in your career.

A mastery of these practices delivers another important benefit. In addition to further differentiating yourself from others – in itself a big advantage – it allows you to look beyond returns alone where plans are concerned. As vitally important as these are for both sponsors and participants, there is of course more to serving as an advisor than merely running numbers. There is a qualitative side as much as a quantitative one.

Isolating the qualitative benefits you provide is not as easily articulated, but it comes down in large part to being able to provide that “extra something” that benefits a client. This intangible is often information – not so much a mandate or suggestion but rather informed opinion and advice on a relevant matter— that is communicated in a way that potentially is of use in the future. A plan sponsor who can turn to you for your thoughts or advice on policy, trends or other matters that conceivably would impact a plan may turn to you for other services beyond those you originally agreed to provide. Perhaps they would make a referral or introduce you to other interested parties. These are just three ways of reciprocating for the additional value your knowledge offers them.

In any case, any or all of the following are three everyday activities that can make a big difference in terms of the quality of your services, and in turn, deliver advantages to you as a sought-after advisor.

• Listen to and learn from your mistakes as much as from your successes. This may require a change of mindset at first, but can reward with big dividends once you’ve mastered doing so. As with all of us, the best advisors have made plenty of both. What separates them in large part from the herd is a willingness to examine and correct mistakes.
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• Keep abreast of federal policy as it applies to the industry at large and don’t be afraid to comment on its potential impact to clients. Not only does it position you as being informed, more important, it sends a message that you know to take action on behalf of plan sponsors in the face of regulatory changes. This confers an automatic advantage over others who may be able to execute or maintain a plan, but who cannot anticipate or respond in a timely fashion on behalf of a client. The potential savings from being able to do so will not go unnoticed.

• Research market trends and their importance for your clients. Just as having a current knowledge of what is happening and being discussed in Washington as it applies to your clients is important, so too on the market side of the business. Here again, the more you can articulate market behavior and its potential impact concisely, the greater your stature as a valued resource is, and the higher the likelihood is that your guidance will be sought in additional matters.

• Leverage your recordkeepers and defined contribution intermediary partners. There’s a lot of ground to cover in advising any plan. The more you collaborate with other service providers, the more information you have available for your own needs. Sometimes others in the plan’s administration have knowledge that can positively impact what you do; at other times what they can tell you may save time and money you’d otherwise have to allocate. And as with the suggestion immediately above, if you are seen as a team player and someone who has a broad-ranging knowledge and contact base, the odds of you being asked to play a larger role are increased.

CONCLUSION

Although no two advisors are the same, it should be clear that certain commonalities do exist in the industry. At a fundamental level at least, all share the common pursuit and goal: to provide consistently excellent service to plan sponsor clients, and, by extension, to plan participants. Every client is unique, and no two plans are ever quite the same size or share the same objectives. Yet there are practices an advisor can apply across the spectrum of clients and plans in his or her pursuit of achieving excellence and establishing a secure client base at the same time.

We have outlined several of these above, broadly grouped into four categories (value proposition, fees, transitioning up market and universal best practices). There are of course many more, not only applicable to these topics but to many others as well, including client prospecting, governance, plan design, succession planning, technology and online presence. All have been selected on the basis of no or low cost; ease of implementation; perceived long-term benefit for client gain/retention; and what both advisors and plan sponsors have told us over the years are key factors in their success.

As you consider these suggestions, keep in mind that none are mutually exclusive: any and all can and should be used in combination with others. Remember too that these can be integrated immediately to your practice, without disrupting or slowing it down, and adding even just one can make a positive impact in short order.
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