

Practices

Serving the Underserved: The Middle Market Gap

by Sean R. Walters, CAE

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Though I work every day with financial planners in my role at the Financial Planning Association, during my off-hours I am a potential client. No, I've not hired a planner yet. But I must admit that as a consumer, my perception is that you simply cost too much.

In a time when it seems every financial services entity is chasing high net worth markets, many planners and business models are set up to serve the mass market, middle market, and the lower end of the mass affluent markets. They work in areas where their client base is rural or working class, and they have thriving businesses. But how do they do it?

This article is the first in a series that will profile different models for delivery of financial planning to these underserved markets. Let us define "underserved markets" as the bottom third of the bell curve for actual clients served by FPA member practitioners—the lower end of mass affluent, middle market, and mass market/mainstream.

Using aggregated estimates, FPA practitioner members serve about four million to six million clients. Two-thirds of those clients are at the higher wealth tiers. That means FPA members are currently providing financial planning services to about 1–2 percent of the potential 108 million households from these lower-income markets. (See Table 1.)

Table 1: What Types of Clients Do FPA Financial Planning Practitioners Serve?					
Age					
25-39	40-49	50-59	60+		
11%	20%	26%	43%		
Net Worth					
< \$250,000	\$250,000-\$500,000	\$500,000-\$1,000,000	\$1,000,000-\$5,000,000	\$5,000,000-\$10,000,000	\$10,000,000+
11%	20%	25%	26%	8%	8%
Investable Assets					
< \$100,000	\$100,000-\$200,000	\$200,000-\$500,000	\$500,000-\$1,000,000	\$1,000,000-\$5,000,000	\$5,000,000+
15%	15%	22%	22%	17%	9%

Source: FPA/FRC survey, "Effectively Servicing and Supporting the Independent Financial Advisor," March 2006.

This column will focus on serving the middle market or lower end of the mass affluent. According to Cerulli Associates, about 20.7 percent of these households, or 27 million Americans, fall into the middle-market category. These are people like me and just about everybody I know. Almost all of my friends, family, and neighbors make in the range of \$65,000–\$125,000 in household income, have \$100,000–\$250,000 in investable assets (retirement and non-retirement accounts), and since most of us are homeowners, we average a net worth of between \$250,000 and \$500,000.

Most FPA practitioner members operate within an independent RIA practice (45 percent), independent broker/dealer practice (23 percent), or dual-registered practice (24 percent). Only about 10–15 percent of FPA practitioner members are with banks, wirehouses, or insurance companies. The fact that these small businesses are serving a predominantly wealthy clientele should come as no surprise. After all, business consultants have been telling you for years that you have to be selective with your clients. And I don't want anyone to go out of business serving me and my old high school buddies.

The Greatest Demand

But consider that, according to recent consumer research conducted by FPA, the demographic with the greatest demand for the services of a CFP professional is the 35–45 age group in the middle market/ lower mass affluent socioeconomic category (\$100,000–\$250,000 in investable assets). Of this category, 46.1 percent answered with one of the two highest box scores in response to the question, "How interested are you in working with a CFP professional?" This was a cross-tab response. Figure 1 notes interest in working with a CFP professional by range of household investable assets.

Figure 1: How Interested Are You in Working with a CFP Professional? (Percentage who answered 4 or 5 on a 5-point scale)

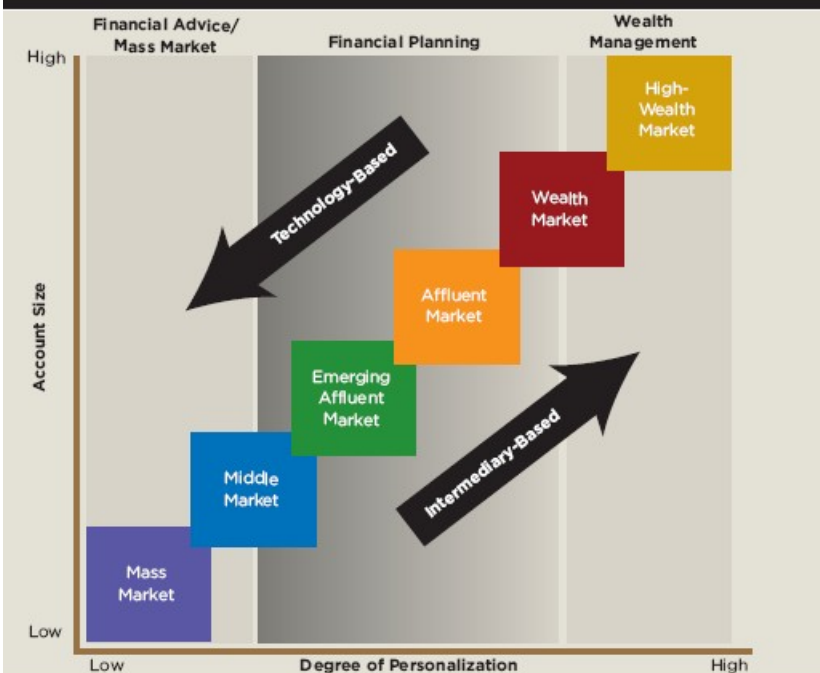


Source: FPA consumer research, August 2006.

Jonathan Warmund, of Pangaea Marketing, a consulting firm engaged by FPA to conduct consumer concept test research, speculates that, among the higher investable asset segment ranges (\$100,000-plus), the lower interest of the \$250,000–\$499,000 group may be due to a predisposition toward self-directedness in managing their portfolio. Says Warmund, "Overall, this group may generally feel good about the decisions they've made to reach their current asset levels and their portfolios are not yet too large or complex to require outside professional assistance."

Researchers at Cerulli Associates have published a model that explains much in the way of how financial advice is provided to the various consumer markets. In their model, technology-based support (high tech) and intermediary-based support (high touch) can be "scaled" to serve different segments of the audience. The less wealth the client has (and presumably, the less complex issues), the more technology can be used to streamline interaction. The more wealth a client has, the more personal interaction they may require. At the high-wealth end of the spectrum, this would translate to a whole multi-disciplinary team of professionals serving highly complex needs. See Figure 2 for an illustration of this model.

Figure 2: How Financial Advice Is Provided to Consumer Markets



Source: Cerulli Associates.

Cerulli researcher William Waldert discussed the concept behind achieving scalability: "Success in this market depends on the ability of firms and advisors to develop a system to serve a large group of diverse investors in an efficient, repeatable manner—to make it as scalable as possible."

In addition to technology, Cerulli suggests that a key strategy might involve the use of "planning teams," which create career paths in financial planning. The Financial Advisory Center (FAC) at Merrill Lynch is set up to serve middle-market clients. The company actively encourages advisors to transfer accounts with balances under \$250,000 to the FAC. Clients are served by a team of advisors 8 to 12 times a year. The team is generally small enough to encourage personal relationships and large enough to minimize the impact if an advisor leaves.

According to Waldert, "Perhaps the most daunting challenge for serving these clients is the career path for the junior advisor. Few of them enter the financial services industry seeking a static career. The challenge is mapping their advancement opportunities, providing more prominent roles in the practice or firm, and structuring compensation in such a way as to ensure continuity."

Taking the Leap

I have heard FPA members talk about their need to have junior planners or paraplanners handle back-office planning. Some firms are encouraged to simply "take the leap" of hiring a junior planner, put them in the back of the office cranking out plans, and go get some more clients. While this approach works well for many firms and should be encouraged, other firms in this situation have evaluated whether bringing on a junior planner is economically feasible. They have found that if they could somehow service existing demand using existing capacities, they could grow revenues just enough to bring on a junior planner to help take the firm to the next level.

Ameriprise has studied this issue and has put in place a "world is flat" solution. The company has developed a system that involves a significant use of technology, and a streamlined back-office plan production approach that allows its advisors to serve tens of thousands of clients in the middle-market tier. Data collection and client relationships are managed by the Ameriprise planner. But they have three key systems that allow them to offer a scalable model and facilitate the large-scale delivery of financial planning: customized financial planning software, a virtual back-office plan development center, and a browser-based client reporting system that provides clients with key measures in real time. The planner within this architecture is charged with focusing on the financial planning process.

"We believe we can be the best at providing affordable financial planning services to our fellow citizens and stay true to the financial planning process," says Bill Moran, vice president of financial planning industry relations for Ameriprise Financial. "Clients know what to expect. Advisors know what to provide. And the financial planning relationship by its nature is personable and customizable. We offer a framework that supports our planners and their clients in the best possible way: by being repeatable, consistent, and predictable."

Briggs Masgow runs a successful business by providing retirement income solutions for low-income clients. His firm won't turn away a client. Clients come in, the firm gathers information and goals using a robust technology, and a team member touches base with the client every six months. The whole focus is to make the process "fast, cheap, and easy for the client." He employs an army of college grads.

A third strategy in serving the middle market is to organize your client base around a common target or niche client base. This strategy can be difficult to execute, but highly successful both from a client and advisor experience. Says William Waldert, "The advantage of specialization is that the advisor works with clients similar to themselves. They enjoy being around their clients and communicate with them more effectively. In addition, there is a ready-made referral network. Advisors must find a narrowly focused, but widely available, group of potential clients with whom they can develop a special relationship."

MyFinancialAdvice.com (MFA), a Denver-based RIA firm, employs an online technology platform and an independent network of advisors who have agreed to offer non-discretionary, fee-for-service advice to consumers. Consumers access the Web site through the consumer's employer's Web site and ask for modular advice on key issues like retirement planning, health savings accounts, and 401(k) planning. MFA's current focus is the direct-to-employer model, so they integrate all three

strategies quite effectively: (1) They target an employer with an offer to serve its employees with affordable, professional financial planning advice; (2) the advice is transacted using a unique online delivery system; and (3) their network of advisors is made up entirely of independent CFP practitioners working by phone and e-mail in non-discretionary engagements, so it is cheap and easy to deliver.

Strategies Match Trends

There is no doubt that focusing on wealthy clients will lead to a more profitable practice. The converse of that would also seem to apply—that focusing on the non-wealthy might lead to less profitability. The fact that my generation and demographic is so interested in financial planning—despite our misconceptions about being able to afford financial planning services—is great news for the future of the profession. The strategies laid out in this article are also trends that will only become more prevalent, more efficient, and more effective—thereby enabling the profession to serve greater numbers of clients from ever broader markets of affluence:

1. There is a growing universe of junior planners, paraplanners, and even virtual planning centers.
2. Technology is getting faster, cheaper, and easier to use. Browser-based systems and the ability of planners to use these technology systems *with* their clients as opposed to simply *for* their clients will continue to have streamlining effects.
3. Niche practices are a response to a mega-trend of "clustering" in the United States and throughout the world, where consumers want to be connected with others like them. Building service models around this trend has great upside potential.

