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James Berkeley's Profitable Growth Notes

Reinventing Transactional Advice: The Goldman Moment

If the future is about "speed" augmenting "quality", utilising technology to transform data into valuable, real-time information, and "quality" augmenting "speed", blending information with internal knowledge to make more impressive decisions consistent with the client's goals, why do so many owners and top management at advisory firms still jealously guard their proprietary tools, databases and systems?

I'll tell you why, they have a redundant belief system that sharing their "secret sauce" will endanger the future health and well-being of their firm (dis-intermediation and loss of profit).

It manifests itself in clients first having to make contact with the advisory firm, asking their client adviser to create a customised strategy using the firm's proprietary research and analytics, and the adviser invoicing the client for the time invested in doing so (hourly fees) or an arbitrary percentage of the transaction (the adviser, broker or agent's commission).

How ridiculous is that when the very same customers and advisory firms do business with tech giants (Google, Microsoft, Salesforce and so on), whose business model is built around sharing vast swathes of information and monetising the use of their analytic capabilities, to achieve record profits.

The mantra in many advisory businesses today (insurance, financial services, real estate) is "we need to get closer to the client". A belief that we can only sell more products and services, and take more of the client's money by being in front of them more frequently.

However, that assumes

1. The client has an existing or anticipated need at the very point your advisers are talking to them
2. Your firm has absolute credibility
3. The client has the time and inclination to listen and act upon the advisers suggestion (trusting relationship, you are the client's priority)

in order to convert opportunities into cash. In summary, it is a strategy that requires a large number of physical resources, extensive investment in technology, a large slice of luck and substantial risk.

The alternative mindset is the "client needs to get closer to us". A belief that in providing faster, a more diverse and more relevant set of immediate opportunities to interact with our people and "taste" our value, we will attract committed clients, who will want to immerse themselves more intimately in our higher margin higher value offerings.

In so doing

1. We accelerate the process of building trusting relationships with our ideal clients.
2. We avoid the perils of the “beauty parade” and time-consuming RFP processes.
3. We are able to contribute in a far more impressive manner to our clients’ future (happier clients, greater profit, stronger brand)
4. We rapidly create "permanent" and loyal clients for our brand (less attrition, lower competitive threat).
5. We dramatically increase our top line revenue growth (repeat business and referrals)
6. We lower our client acquisition costs (increase word of mouth marketing)
7. We achieve unprecedented operating margins (reduced need for sales support and back office services)

The cynics will argue that those advisory firms, most notably Goldman Sachs this week, who have started to embrace the tech mantra, will quickly that find that they are unable to win enough client business to support widespread sharing of their analytics with their customers. Others will presume that they are only sharing their inferior analytics (in some brokerage businesses that accusation is not without merit).

However in a world where profits from transactional services are increasingly being squeezed by waves of new regulation and the onset of more electronic trading, in all probability this is the future of the transactional advisory business.

Starting point:

1. What business outcomes could we accomplish by unbundling existing products, services and relationships and empowering our ideal clients to make their *own* decisions in future?
2. What alternatives exist to use high tech as an “enabler” to distribute and utilise our data and analytics tools?
3. What are the risk and rewards for our clients, shareholders, employees, business partners and regulators with each alternative?
4. What are the implementation obstacles? (competing short-term priorities, operating beliefs, lack of precedent, vested interests, systems, compliance and so on)
5. What preventative and contingent action could we undertake to minimise the impact?
6. Who within the firm and externally, by title or influence, do we need to gather support from (“exemplars”) in order to turn the conceptual idea into an organisational reality?
7. How do we best operate and monitor internal and external feedback systems to test our assumptions, make appropriate adjustments and exploit success (new innovations)?

The concept of providing clients value (insights, market reports, recommendations) in order to win business is not new for most advisory firms. Indeed many firms as large as Goldman and much smaller have been doing this for years. What is transformative is embracing the idea to share the trading platform more extensively with clients and as part of a strategy to encourage the firm's ideal clients to get closer to their adviser.

If you would like to discuss this personally, contact us at telephone: +44 203 440 5072 or email: james@elliceconsulting.com