Is it time to let some clients go?

Realizing less is more can lead to better profits and income.

BY TONY VIDLER

There comes a point in nearly every professional's career when they are faced with the great "leap of faith" question: Can I work with fewer clients and maintain — or improve — my income?

The answer is a resounding "yes."

Not only can it be done successfully, but it should be done by most advisors who have grown a large client base and find their income beginning to plateau.

A leap of faith is required to believe in the possibility that "less is more."

The typical advisor's career experience up to this point has reinforced the view that the path to greater earnings is to gather more clients. It is the safety-in-numbers paradigm: "The more clients I have, the greater my income will be."

The word "income" is the critical flaw here. There is no doubt that the more clients you have, the more revenue you have. But revenue is not the same as income, is it?

The more clients we have, the more support staff and systems we need, and therefore, the higher the cost of service per client. With volume comes margin pressure, or declining profitability per client.

We can buy time and relieve the pressure with improved efficiency through smarter technology, but that usually only defers the problem.

Better systems provide some relief for a while, but they often lead us to believe we should continue gathering more clients, because we think better efficiency and higher revenue are the same as increasing capability and growing the practice.

So we gather more of the same clients, who in turn add to the total servicing costs for the practice — you see where this is going?

This is about the time in our business development where it dawns on us that profitability, rather than revenue growth, is the objective.

It's time to bet on Pareto and his 80/20 principle, but to do it prudently.

When I took our practice, with more than 6,000 retail clients and 14 advisors, down this path — with some very significant resistance internally — we began with careful analysis. Good data is critical to making good decisions.

For example, we found we had been running the business poorly by delivering the same standard of service across a range of clients, regardless of the value they represented.

Our lowest category of clients was generating approximately $67 per annum in revenue, but costing nearly $120 per annum to service. That's poor business, obviously, but it also affects what we can do for our good clients who are paying for — and deserving of — great service.

Good data and analysis lead to being able to make good decisions. We can manage margin problems and improve service strategies. We can develop client segmentation strategies.

When the analysis is done, it usually becomes apparent there is a proportion of clients with low-to-no profitability, and very little loyalty or engagement with ongoing advice on their part.

Easy call: We can live without them.

It isn't always about good commercial decisions though — we are in a people business. Some A clients perhaps don't represent great profitability in their own right, but are advocates who provide the sort of marketing you just can't buy. Or your relationship with them is at an early stage and still holds great promise.

However, you do have to limit the pro bono hours and the number of clients in the top-level categories who are not as profitable for the firm.

You also have to consider your capacity when it comes to delivering personalized advice and service.

In our experience, working with 250 fully engaged clients had most advisors running at full capacity. Within a year, we offloaded a significant portion of our clients, mainly the ones that made no commercial sense to us and the ones we didn't have a meaningful relationship with.

Our advisors settled into a pattern of rising revenue and profitability per client, as each new client coming onto their book had to replace someone else, and thus capacity didn't change.

For individual advisors, the result is clear: Fewer clients means fewer distractions from the demanding, unprofitable, "squeaky wheel" element of the client base.

An advisor who is prepared to take the leap of faith and reduce client numbers can find it is a path to improved profitability and personal income. RT

Tony Vidler is a New Zealand-based consultant and coach to financial advisors. Contact him at tony@strictlybiz.co.nz.

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NARROWING CLIENTS: THE END RESULT

Having fewer clients to work with results in spending more time with people who value you and your advice. It enables the relationship to develop, which leads to:

- New revenue lines from time- or project-based fees and joint ventures
- Higher average revenue per transaction, which comes as a result of more thoughtful discussion and higher levels of client trust
- Other business coming your way from the same clients, boosting client loyalty
- Increased referral volume and quality from clients
- Reduced marketing costs and pressure
- More control of timing and workflow, creating better work-life balance for you and your support staff