



THE ADVISER'S GUIDE TO CLIENT SEGMENTATION

Targeting client needs to deliver
better outcomes, improve efficiency
and strengthen your brand

A guide from M&G Wealth Platform



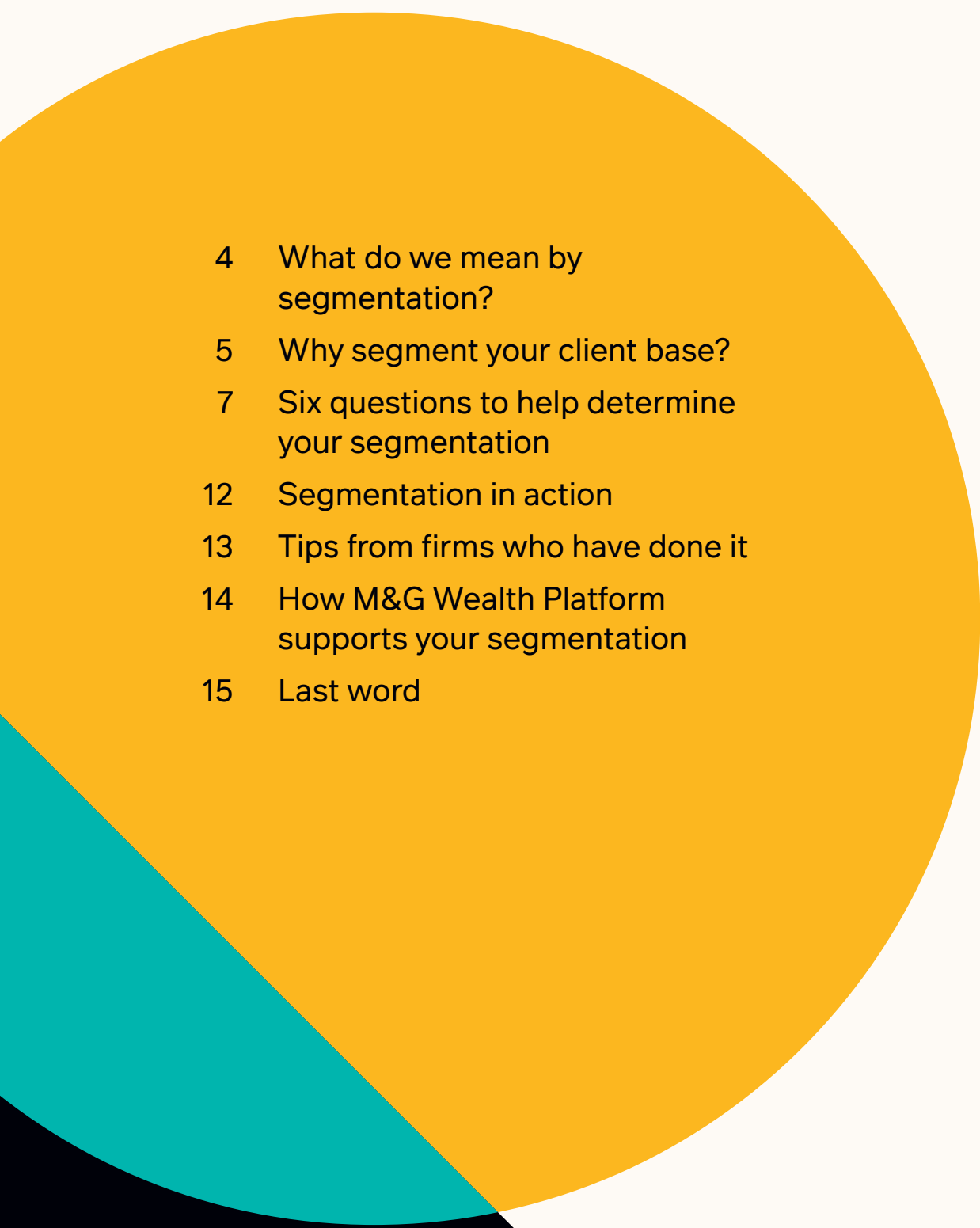
Advisers often tell us that one of their most compelling challenges is how to service clients as individually and personally as possible – in a way that’s scalable and financially viable for their business.

This practical guide, produced by M&G Wealth Platform in conjunction with consultants NextWealth, shows how segmentation has evolved – from focusing on level of assets to also considering other factors, such as life stage and occupation. With the imminent arrival of new requirements under Consumer Duty, discover how to implement segmentation as part of a centralised investment proposition. Explore the potential benefits of segmentation and the questions you could be asking as you develop your approach. Throughout there are insights on segmentation trends, insights from advisers and tips from those who have done it themselves.

A must read guide if you’re looking to review or strengthen your client servicing proposition. If you have any questions or comments, please contact your usual M&G Wealth Platform team or email us at platformadoption@mandg.com



Justin Blower
Director, M&G Wealth Platform

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For investment professionals only

What do we mean by segmentation?

To recap, segmentation refers to the practice by financial planning and wealth management firms of allocating clients into different banks, or tiers, based on a set of criteria, which could be demographic, financial or professional.

Each segment receives servicing from the firm that's aligned to their particular needs. This can range from how the firm communicates with the client to how many one-to-one meetings they receive to the range of financial and investment products offered.

Segmentation has often focused on grouping clients by level of assets or age. But many other criteria are now being used to help ensure clients are receiving a service that genuinely tallies with their individual needs.

Adviser trends: Adoption of segmentation

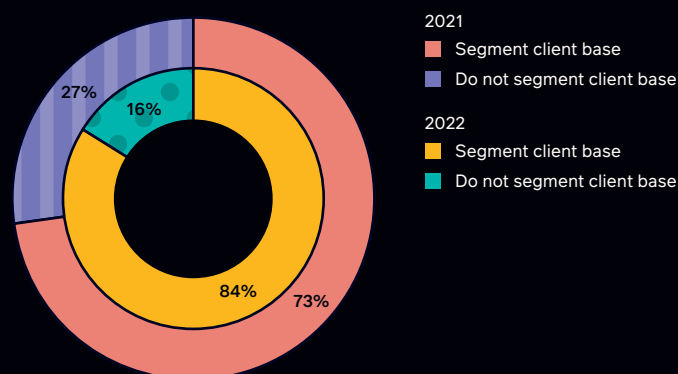
Client segmentation is on the rise. In research conducted for the M&G Wealth Centralised Retirement Propositions 2022 Survey, 84% of advisers said they segmented their client base compared to 73% in 2021.

The research also shows:

- Smaller firms are less likely to use segmentation.
- Firms that don't use segmentation are unlikely to have a centralised retirement proposition (CRP) in place.

Advisers that use client segmentation models are slightly more likely to use tools for other tasks within their business too (eg, scenario analysis, cashflow modelling).

Figure 1: Percentage of advisers who segment their client base 2021 vs 2022



Source: NextWealth/M&G Wealth 2022.

Why segment your client base?

With proper client segmentation that targets specific client needs, your service delivery can become far more efficient, effective and even profitable:

Sharper propositional focus

By clearly defining your target client groups, segmentation can be part of a framework that helps everyone stay focused on finding and servicing the clients that a firm is best positioned to attract and support. This helps to focus marketing and business development efforts. Tracking client growth within each segment can help a firm stay on top of its resource needs: the talent it needs to recruit and the specific infrastructure it needs to have in place for the clients it's best at attracting.

Meet your clients' needs

Robust client segmentation can help you to demonstrate and define in detail your target client markets, and that your recommendations and service levels are based on client interests not client wealth.

Improved profitability

Segmentation can provide a structure to help ensure that clients receive a level of service that's reflective of their current (and, potentially, future) revenues to a firm. Put bluntly, for a business to be profitable and therefore sustainable for the long term, firms need to ensure that all client servicing is properly remunerated (the "cost to serve").

Of course, it's important to recognise that some low-profitability clients (typically younger ones) may see their profitability to the firm increase. Servicing such clients now may be an investment in the future. Even so, the level of service they currently receive now must still be viable to deliver.

Improved business growth (possibly)

There have been indications that robust segmentation supports greater business success – although data to show this isn't extensive. In the US, a survey by an investment provider in 2016 found that firms that segment their client base had more assets under management (AUM), greater AUM growth, and more \$1 million+ clients than those that didn't.*

Improved client experiences and (potentially) outcomes

Most important of all, segmentation can help ensure a firm's service better meets the real-life needs of the client and gives them a reliable, consistent experience that furthers their progress to their goals. It also means you stay in control of the cost-to-serve. If a lower-segment client is demanding a more intensive service, you can point them towards your service that offers this and what it will cost.

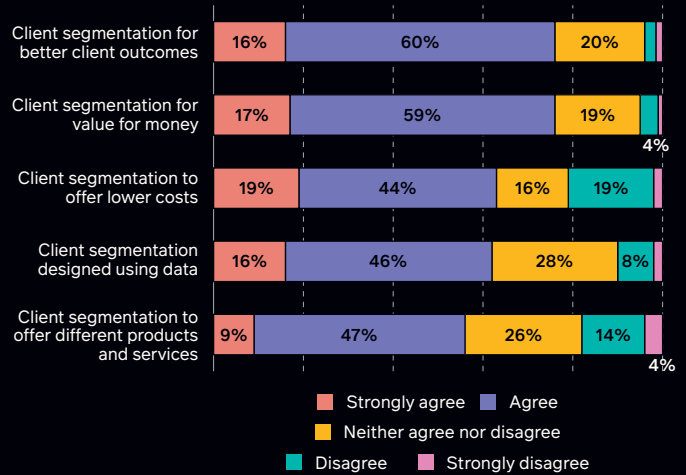
*Fidelity Advisor Community Segmentation Study

Adviser trends:

Reasons for segmenting clients

Three-quarters of advisers who segment their client base, say they are doing so to deliver better client outcomes. A similar proportion are doing it to provide/achieve greater value for money. Around one in five firms strongly believe segmentation can allow them to offer lower costs.

Figure 2: Reasons for segmenting clients



Source: NextWealth/M&G Wealth 2022.

The adviser view

We used to do [segmentation] on assets... We've now gone into client needs. We've got a more basic offering or a more sophisticated offering for want of a better word. Our actual service level that we provide isn't massively different, because everybody we have on an ongoing service gets an annual review. It's just the ones that are more sophisticated... that would get cash flow modelling, and CGT management.

Appointed representative firm,
in South East England

Provided by NextWealth.

Six questions to help determine your segmentation

Just as there is no single type of client, there is no single right way to approach segmentation. To help determine what may be best for you, we've included some questions to consider about your business.

1. Who are our 'target markets'?

A segmentation exercise is a good opportunity to step back and think about what type of clients you want your business to attract, who you can best support as a firm – and, quite simply, who you enjoy working with.

Are you focused on the retirement market? Do your firm's talents lie primarily in supporting young professionals? Or are you passionate about supporting families and intergenerational planning?

Meeting the requirement for firms to have governance arrangements in place to ensure suitability of products for the needs, characteristics and objectives of clients, often leads advisers to segment by the needs of the clients, rather than the size of their assets. This requires detailed client-profiling. Plus, it may be considered to be best practice for firms to be able to demonstrate the process it went through to identify its target market(s). Other factors we know firms have considered or included are demonstrating market need, the experience and qualifications of advisers within the firm and the type of clients already supported.

Examples of segmentation criteria

These are only a few examples – there may be many more

Financial	Life stage	Personal status	Investment approach
Low assets – but with potential	Young professionals	Business owners	Self-director
Affluent	Mid-life professionals	Divorcees	Validator
High net worth	Pre-retirees	Dual nationalists	Collaborator
Ultra high net worth	Post-retirees	Inheritors	Full delegator

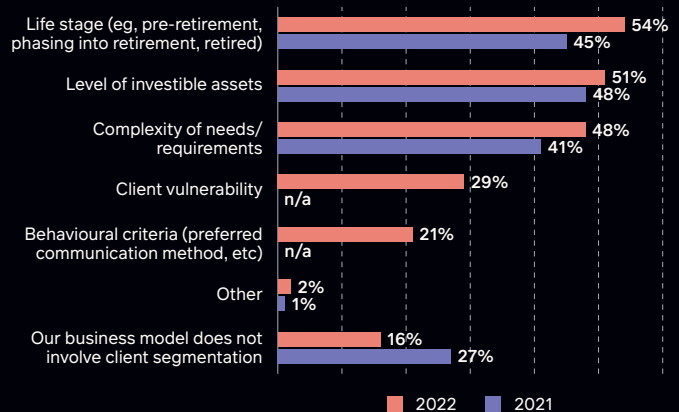
If unsure which markets to target, it may be worth looking at your existing client base and seeing what commonality there is in terms of age, life stage, personal status or concerns. It may be that you have already specialised in a particular demographic without realising it. And being specialised in one type of client can often lead to referrals to others.

Of course, some firms may see themselves as generalists serving a wide range of very different clients, or a progression of age groups and life stages. That's fine if you feel you're up to serving every client efficiently and profitably. If not, a sharper focus may allow you greater control – and a clearer and stronger proposition in the marketplace.

Adviser trends:

Basis for segmenting clients

In the past, client segmentation was typically based on assets. Today more than half of firms now segment by life stage, the top choice. Defining clients by the complexity of their needs is also on the increase. In line with recent FCA guidance, over a quarter of firms are identifying clients that may have vulnerabilities.



Source: NextWealth/M&G Wealth 2022.

2. How many segments and sub-segments should we manage?

Once you have chosen your core segments you might well further subdivide those on other criteria, such as level of investible assets to ensure the level of servicing given is fully remunerated. But advisers who have segmented, warn not to over-engineer and keep segments as simple and understandable as possible.

The key is to have workable client segments with sufficient flex in their investment scope (and other areas) that you don't need to create new segment sub-sectors every time you come across a point of differentiation.

Adviser trends:

Combining segmentation

According to NextWealth research, financial advisers have become more likely to approach client segmentation from a number of angles.

- Only 9% of advisers segment their client bank solely on investible assets, down from 17% in 2021.
- 59% of advisers segment their clients on more than one criterion, up from 37% in 2021.
- The most common criteria used in combination for client segmentation are life stage and investible assets, followed closely by complexity of needs and investible assets.

Source: NextWealth/M&G Wealth 2022

3. Do we have the quality of data to support our chosen segments?

To ensure clients are, and remain, segmented correctly may require additional data on their goals, worries, aspirations, preferences and attitudes. Fact finds and annual reviews are, obviously, the ideal time to capture and update this information. Increased regulatory expectations from Consumer Duty to act in client best interests are making this kind of more qualitative information-gathering essential.

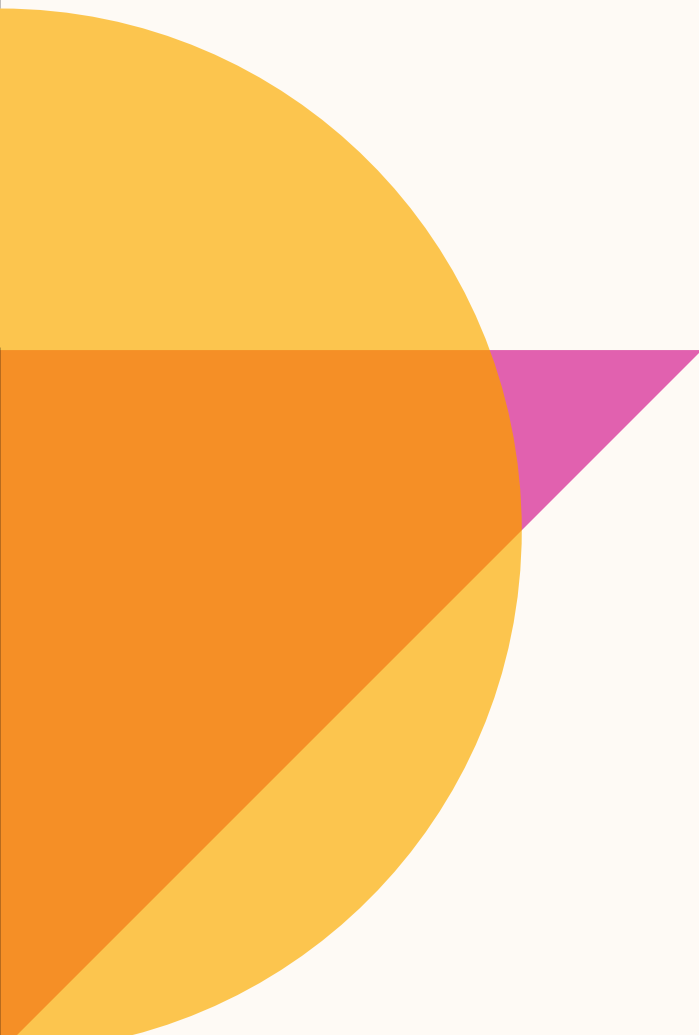
To ensure information remains as current as possible, segmentation data needs to integrate into a firm's chosen client relationship management (CRM) system.

4. What services do each of our segments most need?

Based on the client data you have collected in line with point 3, it's worth taking time to think about the priorities and concerns of your chosen segments and therefore what services and solutions they may primarily need.

This can help ensure a proposition truly resonates with its target market.

Example segment	Things they think about	What they need advice on
Young professionals	Being able to pay for things, managing debt, saving up for a first home, protecting my stuff	Budgeting, savings, insurance
Mid-life professionals	Minimising tax, growing my pension, protecting my family, moving to a bigger home	Tax-free investing and planning, pensions, life and general insurance
Pre-retirees	Paying off the mortgage, maximising my retirement pot, not losing the money I've built up	Strategic cash management, pensions, risk management
Post-retirees	Ensuring a stable income, releasing capital, passing on assets	Income investing, equity release, estate planning



5. How should our service proposition differ for each segment?

Successful segmenting is about meeting the specific needs of each client as fully as possible but in a way that's financially viable for the firm – especially if it plans to grow and attract more clients ('scalability'). So there may need to be trade-offs and the cost-to-serve (see panel below) needs to be carefully assessed. Considerations for each segment might include:

- **Number/level of meetings per year**
Premium segments may get more in-person meetings; lower-value tiers may focus on online meet-ups.
- **Who works with the client**
Lower-value or less-complex clients may be assigned to a junior adviser whereas higher-value or more complex clients may be handled by senior advisers or even partners.
- **Level of automation/digital servicing**
Digital fact finds can make it more economic to service lower-cost tiers; all low-value processes should be automated as much as possible for all segments.
- **Frequency and depth of reporting per year**
This may be driven by complexity of client need or life stage as well as the client's

value to the firm. Newsletters and investor guides may also be in the mix.

- **Range of financial planning services**
For example, as well as wealth management, are you ready to offer cashflow planning, budgeting, tax-planning or protection advice?
- **Range of investment products**
Will all segments focus on pooled investments or are you also able to offer individual securities trading, alternatives, or real assets to those segments whose needs are more specialist? And should the investment focus be on passive or active strategies – or both?
- **Type of portfolio management service**
These could range from multi-asset/multi-manager and model portfolios for lower-cost tiers to full discretionary services for premium tiers.
- **Client events and hospitality**
Will any client segments be invited to seminars, talks or hospitality events? Again, the cost of these needs to be factored into the cost-to-serve.
- **Charging model**
Does a segment and its clients suit a flat retainer, hourly rate, or AUM basis? Integrating a minimum charge into time-based or valued-based charging allows you to ensure each client's cost-to-serve continues to be met.

Assessing the 'cost-to-serve'

As part of the segmentation process, many advisers rank clients by their level of profitability to the firm. You may be surprised who sits where. The service proposition for a client who contacts you regularly but ranks third quartile in terms of profitability may need to be rethought – unless they have future growth potential, or strong referral potential.

If a small client has the potential to become a big client in the future, think how you can continue to add value for them as their needs evolve – eg, by using digital servicing and junior advisers.

Client meetings and ad hoc contact (hours spent)

Client reports and newsletters (hours spent and production costs)

Hospitality and other client retention activity (cost per client)

Cost-to-Serve factors per client

Operational costs (technology, building, insurance, regulatory, etc costs per client)

Portfolio implementation and adjustment (hours spent)

Support staff costs (hours spent)

6. What further resources might we need?

Segmentation may require a reassessment of how your advisers' and other staff time is allocated. It may also demand a review of your investment and technology and platform providers to ensure you're properly covering all the servicing you're committed to.

Technology and the advent of 'robo' advice does open up the possibility of servicing clients – particularly lower-value or tech-savvy ones – digitally at low cost. But do remember that if you go fully digital you are up against some sophisticated and highly-funded offerings in the marketplace.

The adviser view

I've got a handful of platforms that I use... It's really down to things like [is the client] single? Are they a couple? If they're a couple, I'll make a different platform choice because of family linking. Are they somebody who's got a massive final salary... in which case, they're not going to need some of the whistles and bells like regular UFPLS... I only put new folk onto two [platforms] or potentially a third, outlier platform if somebody needs some real niche stuff.

The director of an independent and Directly Authorised firm, in Wales

Provided by NextWealth

Saying goodbye

Segmentation is as much about learning who you can't service as who you can.

Some clients may take up so much time relative to the revenue they generate that it simply isn't viable to retain them – or retain them at their current level of service. The choice then is to invite them to move to an economical service level or to leave the firm. Before asking a client to leave, consider:

- Are they likely to see asset growth in the future?
- Are they a good source of referrals?

As mentioned elsewhere, engaging with young professionals or the children of existing clients can be an investment in the future. But still try to keep the cost-to-serve viable.

Segmentation in action

The table below is for guidance only but it might be helpful as you explore how you could build a segmentation framework.

Segmentation example

	Segment 1	Segment 2	Segment 3
Target audience			
Core criteria			
Profitability ranking in firm (if applicable)			
No. of meetings (face-to-face or online) p.a.			
Primary point of contact			
Number/type of reports provided p.a.			
Range of financial planning services			
Type of portfolio management service			
Type of investment vehicles			
Charging structure			
Minimum fee?			
Newsletters and other comms			
Hospitality events			

Tips from firms who have done it

1. Keep it simple

Over-engineered and complex segmentation systems are doomed to failure. Most practitioners recommend no more than three or four segments and the flexibility for clients to overstep their allocated servicing now and then.

I've only got four [segments]: I've got young, which is 40 and under. I've got pre-retirement, 41 to 55, early retirement 55 to 69. And then late retirement, which is 70 plus, and that's it. All my new clients go through the lifestyle financial planning process first.

The director of an independent and Directly Authorised firm, in Wales

Provided by NextWealth

2. Be firm – but allow some flexibility

Not every client can be in your top tier – and firms need to be disciplined about segment allocation. That said, it's important to allow for discretion, say advisers, especially when looking to engage with future generations.

It's fluid... We look after family wealth, so, you might have a mum and dad with all the money. But we obviously want to encourage their children to come on and they might have a £20,000 ISA. But they still get the same service as their parents. They are not paying for that service. But we want to encourage them, to engage with them.

The director of an independent and Directly Authorised firm, in the West Midlands

Provided by NextWealth

3. Work together

Make sure everyone in the firm understands what the chosen target markets are and why. Inviting others in the firm to contribute towards defining client segments can help generate buy-in and a consistent approach across the firm.

4. Keep it under review

Recognise when a client may no longer fit the segment they have been allocated to – especially when they may qualify for a higher level of servicing. Reviewing a client's segmentation as part of their annual review is a useful practice to get into.

Equally, check regularly that your chosen segmentation approach is still meeting the needs and ambitions of your business.

The regulation bit...

This is a key requirement of PROD. All relevant staff must possess the necessary expertise to understand:

1. the characteristics and risks of the financial instruments that the firm intends to distribute
2. the investment services provided by the firm, and
3. the needs, characteristics and objectives of the identified target market.

How M&G Wealth Platform supports your segmentation

The M&G Wealth platform has a range of easy-to-use features to enable you to build, manage and report on multiple client propositions.

A choice of adviser-facing reports to allow you to see your entire client base and segment accordingly

An all-accounts report which lets you split your accounts or clients up by family group, model, cash held, product types and more

A client assets report that allows you to split and group your client base up by the assets they each hold

Other reports that show product specifics such as ISA subscription or pension incomes

Flexible remuneration options to suit different clients

Multi-assets/ multi-manager DFM and model portfolio solutions to support simple to complex investment needs

Trading desk providing daily dealing in listed securities, collectives and exchange-traded products at no additional cost

Fully open-architecture investment and tax-wrapper choice

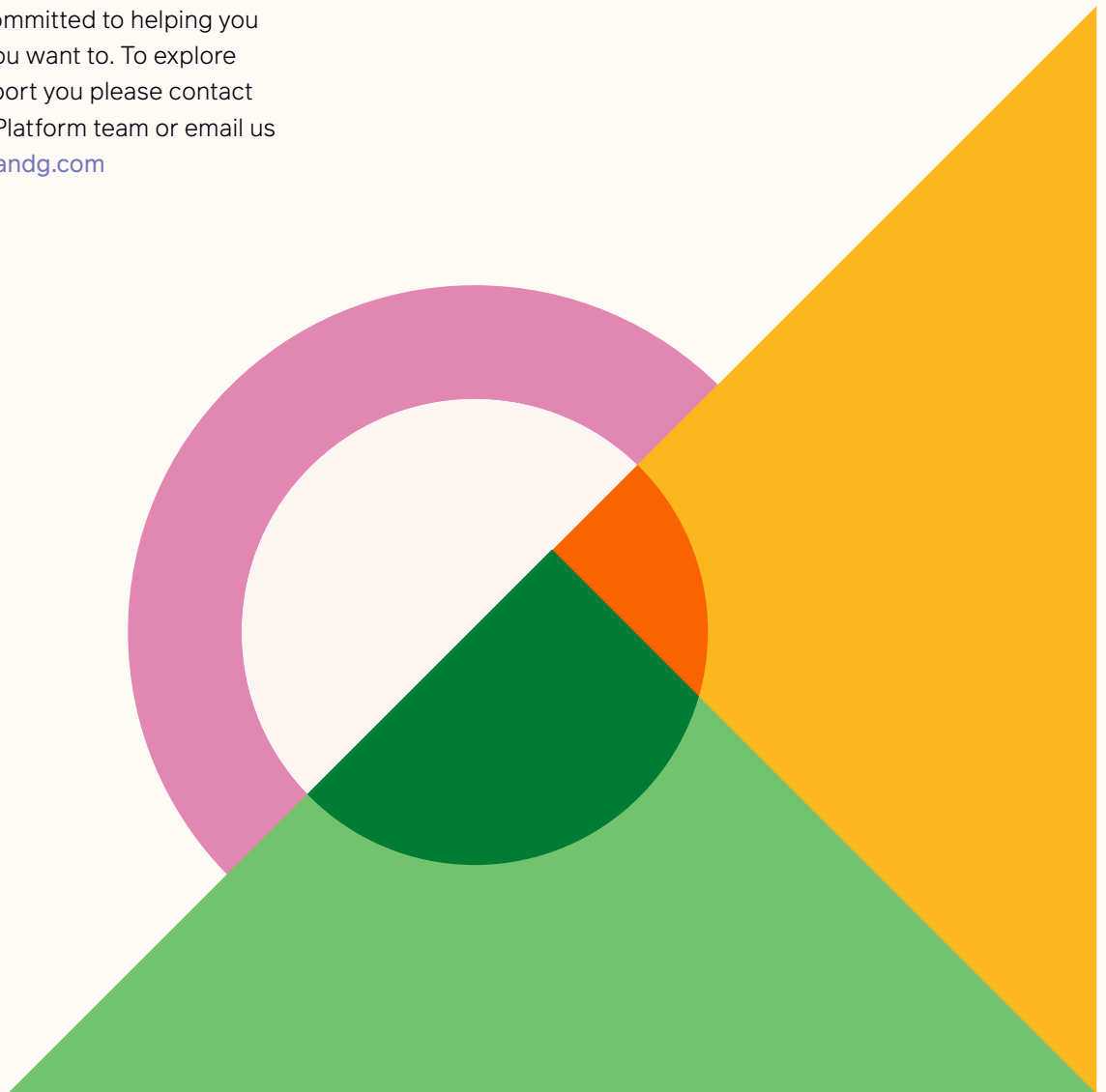
COMING SOON
Enhanced front-office adviser reporting to include more data to improve decision-making, including segmentation

Last word

In a digital, data-driven world, consumers are becoming used to receiving ever-increasing levels of personalisation in every part of their life – financial advice can't afford to be any different.

Intelligent segmentation may be part of processes to help make sure you stay compliant. But, more than that, it offers an opportunity to optimise competitive strengths, keep clients engaged, justify fees and offer a clear and differentiated proposition in a crowded marketplace.

At M&G Wealth, we're committed to helping you serve your clients how you want to. To explore further how we can support you please contact your usual M&G Wealth Platform team or email us at platformadoption@mandg.com




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About NextWealth

NextWealth is a specialist research and consultancy business dedicated to helping firms adapt to what's next in wealth.

We have a genuine passion for wealth management and want to make the industry work better for financial advisers and consumers. We do this through unrivalled research, insight, consultancy and thought leadership to help our clients thrive by turning ideas into action and change.

We are experts on the financial advice market, specially focusing on investment propositions and adviser tech.

We publish syndicated research reports and industry metrics, perform bespoke services and host public events and private roundtables. To sign up to our research panel, email enquiries@nextwealth.co.uk

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