CLIENT SEGMENTATION IN A SOUTH AFRICAN FINANCIAL SERVICES COMPANY

by

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A field study submitted to the UFS Business School in the Faculty of Economic and Management Sciences in partial fulfilment of the requirements for the degree of

MASTER IN BUSINESS ADMINISTRATION

at the

UNIVERSITY OF THE FREE STATE

BLOEMFONTEIN

SUPERVISOR: PROF HELENA VAN ZYL

5 November 2015

Declaration

‘I, Asiya Miya, declare that the field study hereby handed in for the qualification Master’s in Business Administration at the UFS Business School at the University of the Free State is my own independent work and that I have not previously submitted the same work, either as a whole or in part, for a qualification at/in another university/faculty.

I also hereby cede copyright of this work to the University of the Free State.’

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Abstract

Purpose: The business landscape for financial services providers around the world and in South Africa has seen many changes in terms of the economic environment, regulation and consumer needs. Amidst these changes, financial services providers seek to ensure efficient and sustainable business practices through strategies such as client segmentation. The purpose of this research is to analyse the client segmentation practices of financial advisors working under the licence of a financial service provider (FSP) in South Africa.

Methodology: A qualitative approach was adopted to analyse segmentation practices of the financial advisors working under the FSP licence. Eight financial advisors were interviewed in order to gain insight to the research questions. The participants' identities were kept anonymous to protect the identity of the financial service provider and to ensure that the participants' responses were not restricted.

Findings: The following themes were noted; participants' experience and perception of client segmentation, the approach by most advisors lacked alignment to the value proposition.

Conclusion: Effective implementation of client segmentation and a defined service standard depends on the alignment of the segmentation to the value proposition and resource capability of the advisor. Based on this, recommendations were made with respect to a change management programme to address these issues and a best practice guide was included in the appendix.

Key terms: client and customer segmentation, ideal client, value proposition, resource allocation, assets under management (AUM), Retail Distribution Review (RDR), defined service standard, service offering, client experience, client-centric or customer-centric

Acknowledgements

I am grateful to:

The One who afforded me the opportunity to do this research, to my beloved parents for their resilience and patience and to my supervisor Professor Helena Van Zyl whose guidance and support literally carried me through this journey. This research would not be possible without the participation of the financial advisors who allowed me the time at short notice for interviews and their candid and open responses.

Thank you to SP for showing me that leadership is inspiring and humane.

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CHAPTER 1 INTRODUCTION AND PROBLEM STATEMENT

1.1 Introduction and Background

Amid a muted economy, the financial services industry is facing strong headwinds of change and uncertainty (Bateman & Kingston, 2014). Since the international financial crisis in 2008, the integrity and credibility of the financial services industry have been under intense scrutiny (Uslaner, 2010). Trust in the financial services sector ranks amongst the lowest compared to other industries at a global level (Edelman, 2015). Amidst these challenges, financial services providers also face increasing regulation and growing competition that has resulted in the escalation of operational costs and compressed profit margins (Capgemini, 2013).

On the demand side, the relationship dynamic between financial services providers and the client, as well as the needs of the client or investor, have evolved. Investors are more sophisticated, and often financially and computer literate (Capgemini, 2013). This is characterised by a more knowledgeable investor, often beset by a lack of trust in financial institutions and financial advisors, whilst still demanding more value from the service provider (Patnaik & Jolly, 2014).

On the supply side, worldwide trends indicate that investors tend to gravitate to solutions that are internet based or automated, and seek lower and transparent product fees (Berger, 2011). Advances in technology have made the delivery of basic financial services and products accessible and cost-effective for the consumer. The increased availability and consumer awareness of products, such as Exchange Traded Funds (ETFs) or similar 'economic' financial solutions is an example of this (Clare, Thomas, Walgama & Makris, 2013). Financial services providers are therefore compelled to reassess their business models, as well as market positioning in order to meet the needs of a more informed and demanding investor (Berger, 2011; Van Rensburg, 2015).

Hence, there is a multitude of issues affecting the profitability of financial services providers and financial advisors in the industry today. Of these, regulatory changes are considered the most 'disruptive' to traditional financial services provider business operating models (Capgemini, 2015). However, the common aspect relating to the aforementioned issues is the client relationship and client experience.

The common theme underscoring the challenges in the financial services industry relates to the growing awareness of the importance of the client relationship and client experience (Auerbach, Argimon, Hieronimus, Roland, & Teschke, 2012). Marketing research in the services sector indicates that a customer-centric approach, focusing on products and services attuned to the customer's needs, is an essential competitive factor in an environment where consumer trust is low (Auerbach et al., 2012; Hassan, 2012; Klaus & Edvardsson, 2014). Regulatory changes such as the Retail Distribution Review (RDR) can be described as aligned to this changing dynamic of the client relationship and the financial services provider. Rather than a 'disruptive force' to financial services providers' business models, the envisaged RDR outcomes are aligned to the evolving service industry with a growing focus on aligning services and products to meet the client's expectations. Godfrey Nti, CEO of the Financial Planning Institute of South Africa (2015), describes the impact of RDR on the financial planning process is described as a '... client-centric process-driven professional practice that can help (re)build trust and restore consumer confidence in financial intermediaries and support better outcomes for South Africans engaging the financial services marketplace'.

Regulatory changes, such as those proposed in the Retail Distribution Review (RDR) discussion document of 2014 in South Africa, and discussed hereunder, are intended to ensure that clients of financial service providers are protected and that a fair and transparent charging system is established (Naran & Hobson, 2015). These proposals are described as 'disruptive' to the industry as the changes envisaged would necessitate a shift in the traditional financial service providers' business to accommodating the recommended remuneration structure for financial advisors, changes and restrictions in the distribution system, and a focus on the actual role and activity the financial services provider and the financial advisor provides (Cross, 2015). The impact of RDR on financial service providers and financial advisors in South Africa can partly be understood through the experience in the United Kingdom, Europe, and other countries where RDR has been legislated (Boddeüs, 2014).

The Retail Distribution Review (RDR) legislation and supporting regulatory changes have taken place in many countries, such as the United Kingdom, Australia, some European Union countries, and the Netherlands (Cizek & Hradil, 2014). RDR was precipitated by the need to address consumer confidence and trust in the retail investment market. In the United Kingdom for instance, studies commissioned by the relevant financial services authority, identified that the traditional commission-based remuneration model of financial services providers created a bias toward commission that does not adequately address disclosure to the client (Moloney, 2010). This set the scene for a slew of regulatory changes aimed at banning or reducing commissions in order to eradicate the inherent conflict of interest in financial advice (Cizek & Hradil, 2014). The argument is that these changes will contribute to a greater level of competition for advice and transparency (Roll & Pastuch, 2012). This will allow for a fee-based advice model leading to a fairer outcome for the consumer (Roll & Pastuch, 2012).

The financial services industry in South Africa is expecting changes in the industry, driven by similar regulation mentioned above. These changes include, tax regime changes, IFRS 4 Phase II, Solvency Assessment and Management (SAM), and Retail Distribution Review (RDR) (Naran, 2015). In light of this, the challenge that the Financial Services Industry and Financial Services Providers face, is how to best incorporate these changes into their business practices and remain competitive (Donaldson, 2012).

The report on South Africa's Retail Distribution Review or RDR was released for comment in November 2014 by the Financial Services Board (FSB), the regulator of the Financial Services Industry in SA. As noted, RDR in South Africa is largely informed by a similar regulatory experience in the United Kingdom, where the Financial Conduct Authority (FCA) is the financial services watchdog of the UK. The FCA implemented RDR in the UK from January 2013 with the objective 'to improve the quality of pension and investment advice consumers received from financial advisors and to improve the consumers' understanding of this financial advice' (Cizek & Hradil, 2014). Aside from this, RDR has many facets. However, the basic outline of these regulations are intended to provide consumers with a fair and a transparent charging structure when they receive advice, and to ensure that they are able to understand the services, that they pay for, from qualified professionals (Cizek & Hradil, 2014).

The overriding objective of RDR in South Africa is to overcome the deficit in consumer confidence and trust in the financial services sector (FSB Retail Distribution Review proposal, 2014). Primarily, RDR is meant to ensure that the manner in which financial products are being distributed will be fair to the consumer and in line with Treating Customers Fairly (TCF) legislation. Treating Customers Fairly (TCF) is an outcomes-based framework intended to promote fair advice and product distribution that is affordable and appropriate. TCF was implemented in February 2014 within the broader model of 'Twin Peaks'. (Twin Peaks was legislated by the FSB in order to separate market conduct and prudential regulation in the financial services sector). TCF therefore, has mainly a principle-based approach, complementing the Financial Advisory and Intermediary Services or FAIS Act of 2004 that provides financial advisors with a rules-based approach on conduct when providing advice or intermediary services (Naran, 2015).

The RDR proposal of November 2014 contains numerous proposals, which are grouped around the following areas as noted by the Financial Planning Institute (FPI) in an online article dated 14 November 2014:

- The type of service that is offered to product suppliers and customers by intermediaries;
- The rationalisation of the range of relationships between intermediaries and the product suppliers in order to reduce conflicts of interests; and
- A focus on the type of intermediary remuneration models.

Experience in the UK and Australia post implementation of similar proposals, indicates that RDR will result in a radical re-defining of the investment, pension, or retirement funds, as well as the non-life and life insurance marketplace (Cizek & Hradil, 2014). The change required by financial services in their business practices to be compliant with RDR, will be significant (Capgemini, 2015).

This is best described in the words from Ian Middleton, in March 2015 from Masthead, a compliance services company in South Africa. Middleton states 'The reforms will therefore, serve as a catalyst for advisers to put the right processes in place and modify their value proposition to achieve and maintain business sustainability in an environment where commission is not the main source of remuneration. This is by far a more desirable situation for financial advice businesses.'

It is against this backdrop that Company A, a newly established financial services provider (FSP), finds itself. The business was established approximately two years ago with the intention of offering financial advisors the opportunity to work independently under the Financial Services Provider (FSP) licence of Company A.

The success of the financial advisor under Company A's licence is directly related to the advisor's ability to fully utilise the leverage of the systems and business methodology provided by Company A. However, management has noted that financial advisors are not able to adapt or fully utilise these support tools for several reasons. Some of the reasons for non-adoption of these support tools by advisors are identified below:

- Advisors do not have an adequate understanding of the financial planning tools and methodologies provided by Company A. This is partly due to the fact that these advisors have previously offered advice in an environment where the focus is on execution or product sales, rather than technical advice, the latter being the business focus espoused by Company A.
- Under-resourced or inadequately trained back-office support is a constraint for the financial advisor. The advisor should have adequate support in their own offices to benefit fully from the tools and systems available to them from the Company A.
- The advisors may have inappropriate or no planned client strategy and more specifically, the advisor may utilise a poorly planned client segmentation method to approach and service his client base. The impact of no client segmentation or a badly planned segmentation is that service levels cannot be maintained, which is a compliance risk to the advisor and to Company A. Moreover, a decline in service levels is likely to lead to lower client loyalty, less attrition, and less client retention that would affect revenue (Crittenden, Crittenden, & Crittenden, 2014).

Management highlighted the last factor as the most challenging issue. It appears that poorly planned client segmentation methods lead to an unbalanced use of resources and therefore, lower profit margins than might have been realised. It was further noted that when financial advisors did not recognise their core capabilities or business strengths, the initial filter in the client strategy was too broad to allow the advisor to focus the client segmentation method appropriately.

1.2 Problem Statement

Some financial advisors from Company A, with offices based across South Africa, struggle to segment their client base or to implement an effective client segmentation strategy (as noted by management during an assessment of financial planner practices). Research indicates that by not segmenting the client base, or by implementing a client segmentation strategy that is not aligned to the financial advisor’s core capabilities, the outcome is a disparate allocation of resources and therefore, lower profit margins than might have been realised (Osterwalder, Pigneur, & Clark, 2010; Verhoef & Lemon, 2013). Moreover, recent legislation will compel financial advisors to describe themselves according to their service offering (Clare et al., 2013; FSB Retail Distribution Review proposal, 2014). Hence, alignment of the financial advisor’s value proposition and core capabilities with client segmentation is pertinent.

The following research questions arise from the problem statement:

- Why do some financial advisors at Company A, with offices in various main cities across South Africa, not segment their client base or implement a client segmentation strategy?
- Do the financial advisors from Company A, who segment their client base, align the segmentation to the value proposition and the client service offering?
- How can financial advisors at Company A develop, refine, or implement a client segmentation strategy that is aligned to their value proposition?

1.3 Research Objectives

1.3.1 Primary research objective

The primary research objective of this study is to analyse the client segmentation of a South African financial services provider.

1.3.2 Secondary research objectives

The secondary research objectives are to:

- Review the current client segmentation methods;
- Determine why client segmentation is required;
- Identify the reasons for advisors not segmenting the client base;
- Identify what elements are required to implement client segmentation; and
- Provide financial advisors at Company A with a guideline or set of best practices that will allow them to determine and develop their value proposition and the client segmentation best aligned to this value proposition.

1.4 The Theoretical Context

1.4.1 Client segmentation

Independent financial advisors often serve a diversified client base with respect to client needs or size. Client segmentation is intended to provide strategies to best serve these diverse groups in a scalable and profitable manner (Schwab, 2010).

The general objective of client segmentation in the financial planning industry is to identify and target clients, who are considered high-value, with service and product offerings tailored to clients' specific requirements (Rigby, 2015). According to the Schwab research report in 2010, the goal of companies who advocate segmentation is not to ration services or discriminate, but rather 'to create an experience that is an optimal fit for the needs of specific client groups'. The mutually beneficial relationship so described results in a 'win-win' situation that ultimately achieves the business financial and operational goals, whilst maximising the best performance against the client's needs (Schwab, 2010).

However, the success of a client segmentation strategy is dependent on the ability of the business to leverage on data that provides client insight in order to understand the client's need (Auerbach et al., 2012). Client insight provides an indication of which clients will be most receptive to the service or product being sold, and how clients want to experience value (GE Capital, 2012; Hassan, 2012). An in-depth understanding of the client should provide insight as to what is of value to the client and how the client wants this value to be delivered (GE Capital, 2012). The business case for client segmentation is the ability of the business to build and maintain long-term relationships with the most valued client base (Jarrat & Fayed, 2012). It also creates a competitive advantage, since the reason most clients change product providers either is due to lack of quality service or better offers (Rigby, 2015).

1.4.2 The value proposition

A value proposition shows the prospective or existing targeted clients why they should buy the product or service from the provider over alternative providers (Collis & Rukstad, 2008). Whilst there is an emphasis on the importance of client segmentation in the financial planning practice, the successful advisors are 'segmenting themselves' (Schulaka, 2014). According to Oeschi (in Schulaka, 2014), these advisors have 'retooled their practice so they are absolutely relevant to their clients today'. With client expectations increasing in tandem with decreasing assets under management, honing in to a niche market that suits the advisors' capabilities and resources, is likely to yield a competitive advantage (Grote, 2010).

Niche marketing may focus on a specific client group, for example, business owners in start-up companies, or by offering services that market the practice as a 'technical specialty firm' (Grote, 2010). Another differentiator is the financial planner or practice that focuses on leveraging on an internal technical speciality or core capabilities such as fiduciary planning for high net-worth clients (Sclafani, 2010). By developing a rigorous client segmentation strategy, based on insight from the client value, the brand experience and offer can be personalised to meet the needs of the target audience (Zoghby, 2013).

1.4.3 Segmentation within the business

A detailed client analysis and segmentation would establish the client's need in terms of the service and product offering. An internal segmentation establishes what services the business can deliver given the business resource capabilities and the value proposition (Sellhed & Andersson, 2014). Internal resources and business capabilities such as time, technology, human resources, and the skills set or expertise available from this resource will determine the level of service and type of service available to match the client segments identified (Rigby, 2015).

Research indicates that client segmentation is effective when the service offering and business, including '… back office delivery channels, systems, performance management processes, and training…' are aligned to meet the value proposition (Dovey & Helfrich, 2008). Optimal segmentation is achieved by aligning the business capabilities to the value proposition in order to meet the unique business objectives (Zoghby, 2013).

1.5 Research design

1.5.1 Research method

An inductive research approach was adopted, as there is no hypothesis testing (Welman & Kruger, 2001). Instead, analysed data led to recommendations and a set of guidelines for financial advisors.

The research was exploratory in nature. Exploratory research is useful when it is necessary to establish if the phenomenon exists, or to provide a hypothesis, or research in an area that is lacking in established research findings (Welman & Kruger, 2001).

Interpretivism orientation is the most suited epistemology, since the goal of this study is to interpret and understand human behaviour and perception rather than draw on cause and effect theories. The research was qualitative and information was gathered through individual interviews.

1.5.2 Sampling method

The population researched are the financial advisors practicing under Company A's FSP licence, which numbered 47 at the commencement of this research. A non-probability, purposive sampling criteria was used and made up the sample of eight participants. Face-to-face or telephonic semi-structured individual interviews were conducted. Open-ended questions allowed participants to provide more information on their views, experiences, and feelings regarding the topic, while the broad, prepared questions guided the interview.

1.5.3 Ethical considerations

In business research, ethics is a reference to the code of conduct that is required by the various parties, including the researcher, participants, and interviewer, involved in the study (Sekaran & Bougie, 2013). Authority to carry out the research has been obtained from the director of Company A.

Bearing this in mind, signed consent was obtained from all informed participants who were briefed on their rights, the process, and purpose of the study in a formal letter. Participants were made aware prior to the interview that participation is voluntary and withdrawal was allowed at any time (Sekaran & Bougie, 2013).

Responses were treated with integrity and kept confidential while the autonomy of participants was respected. The researcher used a data management system to comply with the need for ethical protection of participants at all times and ensured that the integrity of data is intact (Sekaran & Bougie, 2013). The researcher attempted to avoid any bias during the research process.

1.5.4 Limitations

There are two methodological limitations. In the first instance, the outcome of the research is restricted only to the experience of the eight participants whose views and segmentation practices may not necessarily be representative of all financial advisors practicing under Company A's licence. To mitigate this outcome, the results from the interview would be analysed in conjunction with a more detailed literature review.

The second limitation pertains to understanding the implications of RDR upon implementation. Since RDR is still at the proposal stage and the only outcome one may refer to is derived from the industry players in the UK and Australia for example, where the client demographics and financial economy differ substantially from the South African market.

1.6 Demarcation of field of study

The focus of the study is to determine the success factors that lead to the best client segmentation methods. The participants were eight financial advisors who have segmented their client base on the customer relationship management (CRM) successfully, who utilise all the tools and support structures of Company A, and have the best client retention and on-boarding numbers. The place of study was in Company A's offices in Johannesburg. Telephonic interviews were conducted where the interviewees were based in offices outside of Johannesburg. The field of study is a combination of financial planning, business management, and social science.

1.7 Conclusion

The success of the business to survive or to thrive in this competitive market, and in view of the anticipated regulatory changes, depends on how the financial services provider and financial advisors position themselves to their clients. A successful client segmentation method will lead to an improved quality service. Whilst a customer value proposition that is aligned to the client strategy and business objectives or core strengths of the financial advisor, makes business sense since it translates into greater profitability; it is also in keeping with the requirements of RDR.

1.8 Lay-out of the research

Following this introduction is the literature review in Chapter 2. The literature review provides context and background of client segmentation practices in the financial planning industry. Chapter 3 provides an outline and rationale of the research methodology chosen to assess how client segmentation is practiced by financial advisors in Company A. This is followed by a discussion of the results of the research in Chapter 4. Chapter 5 is a summary of the research results. The conclusion of the research provides for the recommendations for the advisors and for Company A. The terms of reference guide is included in the Appendix A and is based on the context of the literature review in Chapter 2 and the outcome of advisor practices from the research in Chapter 4.

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

Whilst the literature review is focused on client segmentation, the financial advisors' value proposition and the impact of RDR is a consideration throughout. The chapter commences with a review of client segmentation to provide the primary context to the research. This is followed by the value proposition identified by the advisor to address the client segments. Segmentation within the business follows the value proposition, since the internal requirements of the business is often aligned with both the client segmentation and the value proposition. The Retail Distribution Review is the final topic but note is made that this is a relevant theme when developing a client segmentation strategy.

2.2 Client Segmentation

According to Schwab (2010) the objective of client segmentation is '…to assist firms in creating client relationships that are mutually beneficial'. This outcome is achieved when the client need is satisfied whilst the business realises its operational and financial goals (Schwab, 2010). Meeting a client's needs and expectations, results in increased client loyalty and satisfaction that ultimately strengthens the business' economics in terms of both profitability and growth (Auerbach, Argimon, Hieronimus, Roland, & Teschke, 2012).

There is a link between the client experience and client retention as well as client acquisition (Donaldson, 2012). Obtaining and being able to maintain customer loyalty and satisfaction are as important as growing revenues and curtailing expenses (Zoghby, 2013). The opportunities presented by focusing on the client needs in terms of up-selling and cross-selling enhances client satisfaction and improves the business efficiency ratios (Van Rensburg, 2015). Improving client satisfaction and loyalty are key drivers of relationship-based business revenue (Patnaik & Jolly, 2014). Despite this, in the post-2008 financial crisis environment, with the prevailing erosion of client trust in financial services providers and increased competition in the industry, financial services providers and advisors are struggling to retain existing clients (Patnaik et al, 2014, Capgemini, 2013). In this environment, only financial planning practices, which appreciate the client's behaviour and needs, and who leverage on client data, are best able to use these insights to develop strategies to optimise revenues and improve margins (Patnaik & Jolly, 2014). These are the objectives of client segmentation.

In order to achieve this, the business requires a 'customer-centric' agenda to develop their existing clients and to acquire new ones (Auerbach et al., 2012). This means that the business should translate all client related activities into actions that achieve the customer-centric agenda and boost revenue at the same time (Capgemini, 2013). Client segmentation is the manner in which limited resources are directed to priority client segments that yield the greatest return over the long-term (Auerbach et al., 2012). It is the measurable and meaningful division of clients according to their demographics, past behaviours, and needs (Rigby, 2015). The profit potential of every segment is then analysed in terms of cost and revenue in order to determine which segments to target and the business' ability to service them (Maex & Brown, 2012).

As noted, a critical aspect of client segmentation efforts is improved client retention rates (Rigby, 2015). This is especially important in the financial planning industry where the cost and effort of acquiring a new client outweighs the value of retaining an existing client base (Schwab, 2010). According to a PWC report in 2009, the outcome of a successful client segmentation strategy, not only delivers in commensurate returns financially, but should also result in:

- Increased profitability;
- Improved client retention rates;
- Higher return on investment marketing initiatives;
- Increased client wallet share; and
- Greater predictability of earnings and of the portfolio.

Client retention and acquisitions are noted as important issues in the wealth management industry over the last decade (Khodakarami & Chan, 2014). Client retention is important given the competition for new clients in the industry. Competition is intensifying as more firms enter the market and the diversifying of business services' into this industry, from companies that do not traditionally operate in this space, as well as the trend of some wealth managers to waive their minimum fees or investment thresholds in order to acquire more clients (Dovey, 2013). What this implies is that by attracting new clients across different income or investment thresholds, wealth managers realise that current wealth is not the only or a good indication of future wealth (Crittenden et al., 2014).

According to Hernandez and Touhey (2010), a successful segmentation is one that delivers both profitability and sustainable returns over the long-term. This is in contrast to the traditional approach that often focuses exclusively on products or asset value of the client, or the hybrid approach that incorporates client demographics or client attributes (Helgesen, 2006). Since traditional segmentation methods focus almost exclusively on quantitative criteria to value client groups, key data relating to the client needs are omitted (Kavanaugh, Yoder, Belknap, Carr, McDonnell, Kakumani, & Rao, 2014). Understanding the client needs is crucial if the business seeks to improve the client experience (Kavanaugh et al., 2014).

A 'successful' client segmentation strategy is holistic and multi-tiered. In this case, the business would use product and client attributes as well as psychographic elements to define segments (Zoghby, 2013). According to Auerbach et al. (2012), a holistic client segmentation strategy is achieved by understanding the needs of clients and using this deep insight to tailor differentiated strategies to meet clients' requirements. This client centric approach is more sustainable over the long-term, compared to the traditional segmentation model that is essentially product-driven (Patnaik & Jolly, 2014).

2.2.1. Client segmentation practices

Since every financial planning practice is unique, there are a number of methods and criteria to segment the client base (Rigby, 2015). This would depend on the type of financial practice, the market, and the value proposition (Capgemini, 2015). Client segmentation in financial planning firms tends to vary between four basic methods (Hassan, 2012). These are listed below in order of the tactical approach (Commercial Excellence Forum, 2013):

- Demographic segmentation is considered the most basic and general approach, which considers the client's demographics such as age, gender, income, education, life stage, and geography. For corporate clients, the focus is on the corporate revenue, number of employees, and the business sector amongst other such demographic factors.
- Value segmentation is often referred to as 'traditional' segmentation as it is the most commonly used method. The criteria used in traditional segmentation are margins, revenue, and assets under management.
- Behavioural segmentation considers the client's behaviour in the past, at present, and in the future regarding financial and lifestyle events.
- Needs-based segmentation takes into account the clients' perceived, known and unknown needs and experience requirements.

Value-based and demographic segmentation are considered to have the lowest impact in terms of the business tactical strategy in relationship-based service business such as the financial planning practice (Commercial Excellence Forum, 2013). Behavioural and needs-based segmentation tend to have the greatest tactical impact in a financial planning practice. Needs-based and behavioural client segmentation require greater in-depth client insight but yield greater value over the long-term, since the client's experience is improved and addressed at these levels (Auerbach et al., 2012).

2.2.2. Traditional and demographic segmentation methods

Traditional approaches to client segmentation are focussed on maximising value from each client, which hopefully translates to clients paying more if they feel that the product offering provides them with something special or is unique to them (Tien, 2010). This is often the case in private banking and wealth management services, where the premise is based on tailored services for high net-worth clients (Sellhed & Andersson, 2014). However, the client would need to find value in the service proposition that is offered in financial and psychological terms (Donaldson, 2012). The similarity of this proposition fits in with the services offered by independent financial advisors due to the relationship orientation of the service offering (Sellhed & Andersson, 2014). It would seem then, that the wealth-management service offering and clients are heterogeneous, which would account for the ‘tailored service’ promise at the beginning of the relationship (Donaldson, 2012). The reality, though, is that although these clients often receive individual attention, the manager or advisor has to focus on a large group of clients with different lifestyles and needs. The result is the homogenisation of service and product delivery that does not necessarily address the clients’ needs (Donaldson, 2012).

Segmentation by the level of wealth, asset class holdings, value of assets under management (AUM) and the revenue generating from AUM, demographics, age, relationship with the company or advisor, etc. are commonly used client grouping methods utilised by financial advisors (Schwab, 2014). The approach to client segmentation varies between advisors, as there is no clear industry standard for client segmentation and every advisory practice differs in terms of the market they serve (King, 2010).

However, the more commonly used method in the financial planning industry is based on assets under management and revenue (Schlapia, 2014). Research indicates that these criteria may not be adequate in addressing the client need or to extract best value (Tien, 2010; Zoghby, 2013). Although segmenting by wealth or assets may appear to be the most obvious route to find the client groups with higher potential profitability for the business, this criteria does not provide insight into what the client’s current or probable future needs may be (Donaldson, 2012).

Similarly, segmentation by client revenue is a preferred option, given that from a business view, this method provides a view of the client in terms of affordability of fees and amount of income expected from the client segment (Schwab, 2014). Factored into this type of analysis are the underlying assets under management, as well as the likely profitability and revenue from these assets. As with the argument regarding AUM earlier, these methods do not account for certain client related needs or aspects in terms of future profitability (Donaldson, 2012). Coupled with alternate behaviour based criteria, such as life-stage considerations, the advisor will be in a better position to understand the future profitability of the client asset bank (Rigby, 2015).

In addition to client groupings based on the criteria described in the preceding paragraphs, financial advisors differentiate between levels of client financial knowledge. A client who has financial knowledge and understands the various solutions available, ‘buys’ the solutions or products (Polyak, 2014). This is in contrast with a client with low levels of financial education, who would generally be ‘sold’ these services or products. Advisors may use proxy wealth for financial education but this is obviously not the case (Helgesen, 2006). The product features and add-on services (health, fitness, credit services, and short-term insurance, etc.) available by large insurance or financial companies in the form of bundling lifestyle and additional enhancements to the product offering, suggest a recognition of this ‘buying consumer’ in the market (Polyak, 2014). To attract the more financially sophisticated client, a customer proposition is broadened beyond the actual product offering. These solutions are positioned to meet clients’ multiple needs (Dovey, 2013).

Therefore, it would appear that the traditional client segmentation methods are simplistic and do not accurately reflect the client need. This is in contrast to the essence of the financial advice proposition where recognising diversity and understanding the clients’ unique needs, are central to good practice standards (Donaldson, 2012). Opportunities within client segments are overlooked by disregarding diversity and the influence this will have on service or product demand and behaviour (Polyak, 2014). This is because the client situation and background will affect client's’ objectives and attitudes that would guide clients’ needs (Jarratt & Fayed, 2012).

2.2.3. Behavioural and needs-based segmentation methods

In the case of relating to the management of financial matters, clients’ needs are not always based on practical choice but also include the clients’ understanding of finances and clients’ own interests (Jarrett & Fayed, 2012). In addition to this, service demands from clients can be unique and may increase with affluence or time, further increasing the complexity of client demand. Factors that increase the complexity of demand include (Helgesen, 2006):

- Product or investment options – The larger the range of product categories and asset classes available to place client funds, the more complex management of the same will be.

- Product provider options – The number, quality, and type of providers selected by the client to manage the client's various financial products or services, will increase the complexity of managing the portfolio. In the event of the client requiring control or self-direction over financial affairs, the complexity involved in handling the financial situation for the advisor increases.
- Client life cycles and choices which relate to employment, life cycle events such as retirement, marriage, divorce, emigration require an understanding of legal status and tax issues when advising on the financial situation.

These factors are only some of the aspects of the client demand that provides another dimension to the criteria used in client segmentation. The traditional approach that focuses solely on wealth, for instance, will not adequately meet the clients' individual requirements or needs. It would imply that a combination approach is required that takes into account both a quantitative and qualitative analyses of the client base, in order to develop an effective segmentation criteria.

An Accenture report by Zoghby (2013) suggests that understanding consumer behaviour provides insight into key trends that will lead to client demand. Key trends noted in the report include:

- Clients are less likely to be loyal, whilst client demand increases. Since clients are becoming more aware of product ranges and services through increased education and freely available data on the internet, they are also aware when switching procedures are relatively simple and of lower costs related to moving their portfolios elsewhere.
- Clients are becoming more independent. In some cases, technology allows for financial education and self-direction, whilst some product providers offer services directly to the public.
- The expectation of being serviced continuously or 24/7 through various channels and ease of access to advice and services influences client interest in the service offering (Zoghby, 2013).

Research indicates that behaviour and psychological needs play a substantial role in determining trends and client demand (Dovey, 2013). Behavioural patterns and characteristics describe the way clients wish to be treated or the factors influencing them (Tien, 2010). The financial planners' offer can be tailored to reflect the financial concerns, for instance, of a particular target client group (Vigar-Ellis, Pitt, & Berthon, 2015). An example is of clients' perceived financial need or concern around having sufficient assets or wealth to meet the clients' lifetime income requirements (Lee, Anderson, & Kitces, 2015). In order to address this need, the financial planning process is directed toward meeting the clients' lifetime goals, instead of investment benchmarks (Lee et al. 2015).

This approach is intended to manage irrational investment behaviour and emotional decision-making, by focusing the client on the importance of personal lifetime goals and is based on behavioural finance research by Shefrin and Statman (2000). Supporting this research Das, Markowitz, Scheid, and Statman (2010) demonstrated that instead of risk being defined in terms of volatility of returns, the goal-based approach works on the concept of risk as the 'probability' of failing to achieve the desired goal. In the aforementioned study, this 'mental accounting' goal-based planning method achieved the optimal portfolio or classic mean variance optimisation (Das et al., 2010). This appears to be the trend that wealth-management firms in the United States, Australia, United Kingdom, and South Africa has taken up; indicating that the principles of this behavioural wealth-management approach is gaining traction worldwide.

These trends will lead to newer client groupings in the future that will result in new demands, highlighting the rationale that client segmentation, using alternate criterion to assets under management, will need to be considered in order to ensure client needs can be addressed appropriately (Rink, Roden, & Cox, 2013).

The implications from the above suggest that diversity in the client base would require an intensive analysis of the existing and future client base, taking into account both qualitative and quantitative data (Zoghby, 2013; Schulaka, 2014). Few financial advisors or wealth managers analyse their client base using the demand elasticity of certain offerings or products, or the client relationship profitability, or make use of structured client research surveys to understand the client needs

(Zoghby, 2013). This would imply that advisors opt to sell themselves to the client based on investment performance and the investment products offered, instead of the valued characteristics from a service offering that the client may expect.

By understanding the valued characteristics from the service offering, financial advisors can exploit insights into these client preferences that lead to client demand (Colbeck, 2012). Therefore, there is a link between the value proposition as experienced by the client and the client segment to which this proposition speaks. If there is a correlation between the value proposition and the client segment, then it is more likely that the actual need of the client is being addressed (De Domenico, 2011).

In order to define the type of service model or appropriate offer provided, the financial planning practice should start with defining the ideal client it wishes to serve (Dovey, 2013). In the absence of this client definition, advisors could be accepting or servicing clients who are not profitable or appropriate to the business. The ideal client will define and inform the scope of the financial planners' range of services he/she is able to provide (Stolz, 2011). Hence, advisors with a value proposition are better enabled to not only communicate their propositions to prospective and current clients but are also able to identify their ideal client and segment their database accordingly (Schulaka, 2014).

2.3 The value proposition

A value proposition shows the prospective or existing targeted clients why they should buy the product or accept the services offered instead of the alternatives available in the market (Collis & Rukstad, 2008). The value proposition encapsulates what the business believes the client values most, and which the business is capable to deliver on (Mikkola, Mahlamäki, & Uusitalo, 2013). In industrial and business marketing, understanding the client value is described as a competitive advantage (Woodruff, 1997; Ulaga & Eggert, 2006; Mikkola et al., 2013). However, there is no objective description of the value proposition concept (Lindgreen, 2012), because value is a subjective concept (Kinniry Jr, Jaconetti, Chin, Fin, Polanco, & Zilbering, 2014).

The concept of value is experiential and meaningful in the context of the recipient and the provider in service dominant businesses (Klaus & Edvardsson, 2014). Therefore, an effective value proposition is one that speaks to the client's experience, driven by insight and deep knowledge of the client's needs (Klaus & Edvardsson, 2014).

According to the theory on value in a service dominant sector, value propositions are co-created by the client and the business (Rintamäki, Kuusela, & Mitronen, 2007). Hence, two main components for the development of the value proposition can be noted, the client and the business providing the service (Rintamäki et al., 2007).

The first component requires an understanding of the client's needs and perceptions of the service (Klaus & Edvardsson, 2014; Kinniry Jr et al., 2014). Research indicates that enhancing the client experience, increases client satisfaction, referrals, and client loyalty that are key factors to improve revenue (Klaus & Edvardsson, 2014). Moreover, transitioning from product-centric services to client-centric services models (as is the trend in financial advisory firms), involves strategic changes in the manner in which the company relates with its clients (Ambroise, Prim-Allaz, & Pellegrin, 2010).

The service provider who understands the needs and behaviour of the desired target market is best able to develop a value proposition to attract the desired or ideal client (Porter & Lewis, 2014). By defining the ideal or desired client, the business is able to ensure strategic growth by positioning the business' service and product offering to meet the needs of this segment (Porter & Lewis, 2014).

The second component of the value proposition relates to the awareness of the business' internal resources and strengths. In order to meet the needs of the client to whom the value proposition is directed toward, the provider should be aware of the resources and differentiating competitive factors available in the business that are capable of addressing these client needs (Ambroise et al, 2010).

The advantage of understanding and leveraging on the differentiating qualities in terms of the financial advisor or his/her resource core capabilities or strengths and competencies, is that the advisor can provide the client with services that are unique to the advisor in the market (Collis & Rukstad, 2008). This links with the client segmentation identified, where the clients' needs can be met with these unique or core competencies (Grote, 2010). The figure below, from the Harvard Business Review report by Collis and Rukstad (2008), illustrates the 'sweet spot', where the clients' needs are met in a manner that the competitors are unable to, in the context in which the advisor competes.

Figure 2.1. The strategic sweet spot

(Harvard Business Review report by Collis & Rukstad, 2008)

A competitive advantage is gleaned by the deep understanding of the client segment and by providing a service based on this understanding (Stolz, 2011). However, the argument to provide a generalist service hinges on the volatility of depending on one niche and not being able to diversify against this risk. Yet, capacity and resource capability of the financial advisor, and the practice the advisor operates within, is a critical factor in deciding on the service offering, and the level thereof to clients, as is the case in client segmentation (Collis & Rukstad, 2008). By deciding on the scope and objectives of the value proposition, trade-offs are required (Porter, 1979 in Graham, 2007). These trade-offs will distinguish the individual advisor or the advisory practice strategically.

The financial advisor who understands the resource capability in the practice and is aware of their own skills-set, technical knowledge, expertise, as well as the type of client the advisor works well with, will be able to develop a value proposition and align this to the client segmentation (Stolz, 2011). This is especially pertinent given the requirements that the Retail and Distribution Review requires.

2.4 Segmentation within the business

A detailed client analysis and segmentation would establish the clients' needs in terms of the service and product offering. An internal segmentation establishes what services the business can deliver given the business resource capabilities and the value proposition (Sellhed & Andersson, 2014). Internal resources and business capabilities such as time, technology, human resources, and the skills or expertise available from this resource, will determine the level of service and the type of service available to match the client segments identified (Rigby, 2015).

Technology, such as customer relationship management (CRM) systems and database management tools, allow financial advisors to use analytics to update and periodically inform the segmentation approach throughout. An understanding of the technology required for CRM, research, marketing, or administration purposes, and the role of financial planning software, ensures a more robust service offering to the client (Khodakarami & Chan, 2014).

An analysis of the human resources available in the practice allows one to understand the level and type of skill set available and to determine who is best positioned or placed to do what is required in terms of meeting the needs of the client and to comply with RDR (Donaldson, 2012).

As important is 'time' as a resource, since one needs to understand the effort, resources, and time required to provide the promised service/s. RDR will require the advisor to define his/her position to the client by describing the scope of services that the advisor is able to offer (Donaldson, 2012). By meeting the more onerous requirements outlined in RDR to consider one an 'independent advisor' for instance, the advisor would need to ascertain how this definition would affect the time or human resource available.

2.5 Retail Distribution Review

An over-riding consideration when developing the value proposition and client segmentation is the compliance of the business with regulations such as the Retail Distribution Review (RDR) and Treating Clients Fairly (TCF) (Chapter 1). As noted, the Financial Services Board's (FSB) intention behind the promulgation of RDR is to ensure that financial services providers align their distribution models to the required TCF outcomes. As noted in a KPMG report of 2015, the broad objectives of RDR are intended to (Naran, 2015):

- 'Promote appropriate, affordable and fair advice and intermediary services'; and
- 'Support a sustainable business model for financial advice.'

In order to meet these objectives, RDR seeks to review the distribution and the compensation practices within the retail financial services industry, thereby ensuring that the consumer is sold the appropriate or 'fit for purpose' products and that the consumer receives appropriate and unbiased advice in a transparent sales process (Naran, 2015). Unbiased advice is often not possible when an advisor is a 'tied-agent' or employed by an insurance firm (Naran, 2015). However, the requirements from RDR take these distribution and remuneration models into account through proposals relating to transparency and disclosure of the type of service and provider affiliation that the advisor is related to when dealing with the client. These proposals are meant to ensure that the outcome is in line with TCF and the Financial Advisory and Intermediary Services Act (FAIS) 37 of 2002 (Chapter 1).

The 55 RDR proposals deal with three issues in this regard:

- <u>Types of services that are provided by the intermediary or financial advisor</u>

  The types of services identified by the Financial Services Board are summarised in the excerpt below from the KPMG report by Hobson and Naran (2015):

Figure 2.2. Types of services provided by intermediary

Services that are provided to the customer	Using an activity-based approach these can be divided into three forms of advice: • financial planning • upfront product advice • ongoing product advice	Standards will be set for each of these subsections, including standards on the types of products that can be sold with no or limited advice
Services that connect the product supplier and customer	Services can be divided into: • sales execution • ongoing maintenance and servicing • platforms • aggregation services and referrals	Standards will be set for each of these aspects and include limitations on certain services such as premium collection and disclosures required for product aggregation and comparison services
Services to the product supplier	Services include: • binder functions • other outsourced functions	Outsourced functions will be regulated in a manner consistent with Directive 159

(Naran & Hobson, 2015)

The proposal explicitly defines the services and activities provided by the advisor whilst setting standards for each service. The implications are that advisors may now be in a position to 'price-in' the service as described.

- <u>Relationships between intermediaries and product suppliers, and the sharing of responsibilities between intermediaries and suppliers</u>

  The proposals related to these relationships are meant to define the capacity in which the intermediary acts in order to place the customer in a better position to understand the context and scope of the advice provided. Intermediaries will be defined as:

  - tied advisors (advisors who are employed by a financial institute or product provider whose products they are compelled to sell),
  - multi-tied advisors (advisors who have multiple contracts with various service or product providers and whose scope is restricted according to these contracts to these providers), and
  - independent financial advisors (or IFA's who are not affiliated to any particular provider and have contracts with various financial product providers) (RDR proposal, 2014).

In light of the above, it is clear that the service and product offering that an advisor provides may be restricted according to the defined relationship. According to

Donaldson (2012), it would be more informative for an advisor to first analyse and segment the client base prior to structuring the levels of service that the practice offers. By applying a client segmentation based on the level or type of service offered for instance, the current advisor will have a clearer understanding of the best definition to opt for and practice as, under an independent label, multi-tied, or restricted advice model (Bateman & Kingston, 2014).

An internal segmentation focussed on business resource and capabilities will provide an understanding of the time and skills, etc. required to deliver on the services promised either individually or as a practice. The RDR requirements to define oneself as an 'independent advisor', for instance, will result in an increase in the product or service coverage offered, which is likely to impact on the advisors' resources. If internal resources and capabilities cannot be enhanced to match the outcome required in terms of the RDR defined status, a review of the current business model and client segmentation may be required.

- <u>Intermediary remuneration models</u>

  These proposals are intended to address conflicts of interest and to ensure that there is a correlation between the advisors' services that are provided and the remuneration received for said services. In addition to this, there is an emphasis on disclosures, comparisons of fees, and the consumers' understanding thereof, as well as the difference between upfront or initial fees and ongoing fees charged.

The outcome from the implementation of RDR in the UK led to a fundamental change in the business operating models for a number of financial planning practices (Clare et al., 2013). Client charging or remuneration changes that are driven by RDR are likely to influence a review of current operation models (Bateman & Kingston, 2014). The declaration and definition of the nature of the advice offered (tied or multi-tied or independent), and the subsequent requirements will influence the type of service offered, which in turn prompts an analysis of the business resources, value proposition, and client segmentation methods appropriate in this new environment.

A clearly articulated value proposition, which is aligned to the client segmentation and the defined service agreement for each of the client segments, ensures that clients understand the service offering, cost implication, and actual value provided by the financial advisor. This means that the financial advisors’ activities are clearly defined and provide clients with greater transparency, which is the outcome envisaged by RDR proposals. Advisors can set reasonable or fair fees for services provided and determine the manner of delivery for services that were previously considered ‘part of the package’ or free (Bateman & Kingston, 2014).

2.6 Conclusion

In conclusion, a well thought out client segmentation strategy establishes what the client requires in terms of products or services. Segmentation of the internal business resources determines the service that can be delivered to meet the client segmentation and to deliver on the value proposition. In light of the regulatory changes in the industry and with specific reference to RDR, client segmentation may be an advantage to enhance the business offering when aligned to the RDR outcomes, thereby placing the business in a more competitive footing.

The literature review provided insight in terms of the second and third objective of this study by highlighting why client segmentation is required and identifying the elements required implementing client segmentation. These elements; the segmentation of the internal business resources, the value proposition and the client demand in terms of products and services were incorporated in the qualitative research questions described in Chapter 3 and Chapter 4.

CHAPTER 3 RESEARCH DESIGN

3.1 Introduction

The intention of this research study is to understand how segmentation is applied by financial advisors, with diverse client bases in Company A. Direction or reference for the research method was taken from Richard Whittington's (2006) study titled, 'Completing the Practice in Strategy Research', which provides insight around an 'in practice' method for research of business strategies. Whittington's conclusion in this study notes '...strategy is more than just a property of organisations; it is that something people do, with stuff that comes from the outside as well as within the organisations, and with effects that permeate through whole societies'. The emphasis from this paragraph suggests that segmentation strategy is developed and moulded by the business itself. Therefore, it may be possible to compare praxis (the actual use) to the theory explaining the best application. This view, of practice as a 'phenomenon' is explained by Orlikowski (2010), where the researchers view the actual application or event with reference to the theories determining how it should be applied.

3.2 Research method

Orlikowski (2010) elaborates that there is a substantial gap, in most cases, between the reality and theory. Hence, participant observation is the preferred method for researching this type of phenomena. In this research study though, semi-structured interviews were conducted instead of field observation. This is because client segmentation is a business strategy, as noted earlier, and a business strategy would be difficult to study throughout the process unless a longitudinal method is applied. Given the scope and period of this study, semi-structured, once-off interviews were conducted instead.

The four common research philosophies are methodology, epistemology, ontology, and axiological assumptions (Merriam, 2014). Ontology, which translated from Greek, means 'reality', deals with assumptions regarding the 'nature of reality', which is a single defined and measurable reality. Epistemology is derived from the Greek ‘episteme’, meaning knowledge. These epistemological assumptions are based on knowledge that is quantifiable and objective. The aim in this case is often to expand or test the theory. Axiology, from the Greek, ‘axioma’, means that which is fitting and worthy and is based on the role of values. Methodology refers to research strategies with assumptions based on quantitative research methods.

Objectivism and constructionism are two types of ontological assumptions (Bryman & Bell, 2011). Objectivism is described as an ontological approach that assumes that the social phenomena are external facts that are beyond ones’ influence (Bryman & Bell, 2011). Constructionism counters this philosophy with the assumption that the social players’ views and their interactions with others are responsible for the social phenomena being investigated (Sekaran & Bougie, 2013).

Since the intention of this study is to understand and explore how client segmentation is used by financial advisors in Company A, as well as their views of appropriate segmentation methods with qualitative interviews, an ontological assumption of constructionism was the best suited for this approach. Although client segmentation relates to a marketing strategy, it is the financial advisor who decides how and what type of segmentation method should be applied to the client base. Hence, the constructionism approach was appropriate to the study. As expressed by Whittington (2006), ‘… the people in the organisation are responsible for the shape of the strategy’ and in this case, the financial advisors of Company A are responsible for their client strategy and the client segmentation method chosen.

Epistemological positions include interpretivism, realism, and positivism (Bryman & Bell, 2011). Proponents of positivism apply deductive reasoning to argue a scientific approach to understand cause and effect in an objective manner (Sekaran & Bougie, 2013). This is in contrast to the interpretive position that focuses the approach of the research toward an understanding of the phenomena within a given context (Carson, Gilmore, Perry, & Gronhaug, 2001). Since the subject matter relating to social sciences differs from the natural sciences, an alternate logic is required to understand or explore the distinctiveness of social actors against the natural order (Carson et al., 2001). Carson et al. (2001) explains that interpretivism will differ from positivism by applying a personal process with the intention of understanding reality.

Positivism relies on statistical analysis or objective facts to explain cause and affect relationships (Sekaran & Bougie, 2013).

Realism is defined as a philosophy that attempts to explain the existence of objects independently of the human mind (Saunders, Lewis, & Thornhill, 2012). According to Bryman and Bell (2011), there are two types of realism. These are critical and empirical realism (Saunders et al., 2012). Empirical or direct realism is explained as the world or reality as experienced by the senses. Critical realism argues that experiences or sensations are subjective in nature and therefore are merely images of reality (Sekaran & Bougie, 2013).

The epistemology adopted for this study is the interpretive philosophy, because the intention of the study is to observe and understand how client segmentation is being used in practice. According to Whittington (2006), three themes are relevant within this philosophy. The first theme relates to society and the impact of cultural rules or procedures and shared understandings on guiding human behaviour. The second theme relates to the actual activity of the individual in practice, with a description of the actual activities and manner in which these activities are carried out. The third theme is based on the individual and the initiative, skills, and experience required of the individual to carry out the activity (Whittington, 2006).

In the case of business research, specifically in the fields of human behaviour and marketing, the interpretivist approach is considered appropriate, as these fields of research are based on a specific circumstance and individuals within a particular period (Saunders et al., 2012). Describing the differences between the interpretivist and positivist research, Carson et al. (2001) stated that the interpretivist researcher is involved in the study, unlike the independent approach of the positivist. In addition, the sample size of the interpretivist is often small compared to a positivist study approach. This is the rationale for choosing the interpretivist approach in this study. The focus in this case is on interpreting and understanding the manner in which client segmentation is practiced and used during the collation of data.

In order to explain relationships between empirical data and theory, two perspectives can be applied (Bryman & Bell, 2011). These are the deductive and the inductive approaches. The difference between these perspectives can be credited to the manner in which the theories are applied to understand the empirical findings. The deductive approach usually tests hypothesis by moving from theory to the findings, whilst an inductive approach works on the outcome of the research to create theory.

An inductive research approach was adopted in this study, since analysed data led to recommendations and a theoretical framework was developed around the research objectives. Although there may be elements of deductive reasoning applied by analysing the literature on client segmentation, the research will mostly be inductive as new insights regarding the practice of client segmentation are considered. Bryman and Bell (2011) note, that though the inductive and deductive approaches may appear to contrast each other, they are best considered ‘tendencies’ instead of distinctions. This suggests that although an inductive approach may be decided on, some deductive elements could be included. Despite the use of some deductive aspects within this study, there is no hypothesis and society is not considered as an objective reality (Bryman & Bell, 2011). Therefore, the inductive approach is justified in this case.

The different approaches and the intention of the study described above will determine the type of data and the manner in which data is generated (Saunders et al., 2012). Quantitative data, such as questionnaires, are compiled from sources intended for numeric data (Saunders et al., 2012). Qualitative data is not immediately quantifiable unless coded in a specific way, and it is often generated through interviews (Sekaran & Bougie, 2013).

Quantitative studies are focused on quantification during the collection and the analysis of data and therefore has a more deductive or positivist approach (Bryman & Bell, 2011). Qualitative studies that are more descriptive have an interprevistic and inductive orientation (Sekaran & Bougie, 2013).

The data generated for this study was descriptive and derived from words instead of numbers, which is qualitative (Sekaran & Bougie, 2013). The main source of data was obtained from interviews with financial advisors at Company A. In order to ensure a certain quality and direction in the interviews, a semi-structured interview approach was taken, based on the guide detailed in the table at the end of this chapter, covering the areas that are required to be investigated.

3.3 Research nature

The nature of the research may be either descriptive, explanatory, or exploratory (Saunders et al., 2012). The nature of this study is exploratory as the current client segmentation practice methods were explored by asking questions and gaining insights. This was conducted through unstructured interviews in order to obtain qualitative outputs from participants of this study. In some areas, the study may be descriptive as it may be necessary to ‘describe the variables in a situation of interest’ (Sekaran & Bougie, 2013). Explanatory studies emphasise the relationship between different problems or variables (Saunders et al., 2012). In this study, some analysis may appear explanatory in places, but the intention is not to generalise data.

The qualitative study allows for a better understanding of the process behind the chosen client segmentation method, since the data collected is ‘richer’ when compared to the alternate methods described earlier (Saunders et al., 2012).

3.4 Sampling method

The sample population are the financial advisors practicing under Company A’s Financial Services Provider (FSP) licence, which at the commencement of this research numbered forty seven in January 2015. These financial advisors are based across the country in four different cities, namely Cape Town, Port Elizabeth, Durban, and Johannesburg. A non-probability, purposive sampling criteria made up the sample of eight participants. These eight participants were chosen based on their experience, varied backgrounds, and client base. Face-to-face semi-structured individual interviews were conducted. If this was not possible, because travel to the advisors’ office could not be arranged given time constraints, then telephonic interviews took place instead of the planned face-to-face interview. Open-ended questions allowed participants to provide more information on their views, experiences, and feelings regarding the topic, while the broad, prepared questions guided the interviews.

The selection criteria of financial advisors chosen for this study are based on data provided by Company A. The selection criteria was largely informed by the views of senior management based on the success of these financial advisors in penetrating and leveraging off their current client book, as well as the advisors' general asset base, the size and type of client base, revenue generation, product type, the number of years of experience, and skill of the financial advisors. Further, these financial advisors were considered appropriate for the study, since they have segmented their client database using the CRM systems provided by Company A.

3.5 Ethical considerations

The four main areas regarding ethics in business research are detailed below from Diener and Crandall (1978) in Bryman and Bell (2011):

- 'Harm to participants;
- Lack of informed consent;
- Invasion of privacy; and
- Deception'.

In this context, Bryman and Bell (2011) further caution researchers to ensure that reasonable precautions are taken so that the participants are not directly harmed in any way, whether by physical, stress, self-esteem, or by career related questions. In order to avoid this type of harm, the subject of the study was emailed to the participants as an initial contact, explaining how the data would be analysed and in what manner the empirical data is to be used before the interviews began. Furthermore, to protect the participants, both the company and the participants are to remain anonymous. This is to ensure that should this study become available on any public network, confidentiality can be assured at all times.

The participants were asked before each interview if they acquiesce to being recorded in order to ensure they do not feel deceived. The questions were related to the subject matter only, in order to avoid any invasion of privacy.

3.5 Research limitations

There are two limitations pertaining to this study. The first limitation concerns data quality in a qualitative study (Saunders et al., 2012). There are four categories involving the quality of data in this type of study: Bias, reliability, generalisability, and validity (Saunders et al., 2012).

- Bias and Reliability

Due to the lack of standardisation during in-depth interviews with semi-structured questions, concerns around reliability may arise (Saunders et al., 2012). External reliability cannot be determined by replicating the study because according to Bryman and Bell (2011), it is not possible to 'freeze a social setting'. The purpose of a particular study may not be intended to be repeated, since the study may be a reflection of a particular situation at a given point in time when the data was collected (Saunders et al., 2012). Semi-structured and in-depth interviews provide greater flexibility in the interview, enabling the researcher to explore the complex issues involved in the subject (Saunders et al., 2012). In this study, it is recognised that the reality explores the subject of client segmentation at this point of time and is not intended to be repeated. According to Bryman and Bell (2011), internal reliability is possible when the observers agree on what is heard and seen.

Therefore, the outcome from the interviews was confirmed between the interviewer and interviewees to ensure a degree of internal reliability.

There are two different types of bias in relation to reliability, namely interviewee and the interviewer bias (Saunders et al., 2012). These biases reflect the communication and relationship between these parties. In order to avoid this situation, open questions were asked and prior knowledge of the advisors' practices was determined before the interviews. It was made clear to each participant that both the identity of the participant and the company will remain anonymous. This approach was taken to encourage the interviewee to talk more openly of his/her chosen segmentation method, and the related subject matter avoiding what is described by Saunders et al. (2012) as response bias. In this regard, 'leading' questions were avoided.

- Generalisability

Statistical generalisability may be a problem when sample sets are small, as is the case in qualitative studies (Saunders et al., 2012). The findings of research are only generalizable to the extent that the findings are applicable to other settings. According to Marshall and Rossman (2006) in Saunders et al. (2012), the generalisability in a qualitative study is only related to theoretical propositions that the research provides. The onus is on the researcher to determine this relationship to an existing theory, should the researcher wish to demonstrate that there is a broader significance to the findings of the study (Saunders et al., 2012).

As this research is intended to find out how client segmentation is being applied, the theory is used to provide a comparison for the empirical data gathered and for the analysis of this data. This was to ensure a degree of generalisability in this study.

- Validity

Validity refers to the extent to which the evidence that the technique or method utilised to measure a concept, does actually measure the concept as intended (Sekaran & Bougie, 2013). Internal validity is a reference to the extent that the researchers' observations match the theoretical ideas that the researcher intended to develop on (Bryman & Bell, 2011). The concept of external validity is also brought up by Saunders et al. (2012) in reference to the degree that the findings may be generalised across other similar social situations.

In this regard, this study attempted to fulfil these criteria as close as possible, as outlined earlier, by following a guided interview approach and in agreement with participants on the understanding of the interviews that would be conducted.

The second limitation refers to the impact and effect of RDR on the description of the advisor and the ensuing implications RDR will have on the service offering. This is in terms of product type the advisor is able to sell, the activities that the advisor carries out in the course of providing advice and in the course of selling a product, as well as the relationships that the advisor has with product providers.

The effect on financial advisory practices, business models, and by implication client strategies from the changes envisaged by RDR on legislation, was not easy to foresee. Whilst similar legislation in the UK and Australia provides a proxy of what is a likely outcome in this study, the economic and social environment in South Africa differs significantly to that of these countries.

3.6 Demarcation of field of study

The intention and focus of the study is to determine the current client segmentation methods adopted by financial advisors by taking into account the internal resources and value proposition used to support the segmentation chosen. The participants were eight financial advisors who have employed some segmentation approach as evidenced on the customer relationship management (CRM) system of which management has sight. The place of study was in Company A’s branches where the participants are based, namely in Cape Town, Durban, Port Elizabeth, and Johannesburg.

The field of study is a combination of financial planning, business management, marketing, and social science.

3.7 Overview of questions

The literature review outlines the themes around client segmentation, a broad view of the various methods used in financial planning practices, the value proposition and the internal resources of the financial advisor and the practice, and how this informs the client segmentation method chosen. RDR is an over-riding theme, as the implications from the anticipated change that this legislation will bring will have an impact on how client segmentation is developed, the internal segmentation or resource utilised in the practice, and the value proposition presented to the client.

Based on the literature review, the questions below will provide insight around the themes addressed in the review and will provide data to meet the research objectives.

Table 3.1. Research Questions

Questions	Rationale
How would you describe yourself as an advisor today and in five years' time (investment planner, financial planner, wealth planner, etc.)?	Define service offering
How would you describe the practice in terms of provider affiliation (e.g. independent, multi-tied, and tied mostly), and do you anticipate changes to this description after RDR?	Define service offering
Please describe the present and future revenue commission (e.g. AUM, up-front commissions, advice fees, etc.)	Define service offering
Do you have a documented value proposition that speak to your core capabilities? To what extent is this communicated to existing and prospective clients?	Value proposition
To what extent does your support team understand and communicate this proposition?	Value proposition
Do you have a clear definition of your ideal client?	Value proposition
Do you set minimum standards or entry levels to ensure that you only service as close an approximate to your ideal client?	Value proposition
How well equipped are you to meet the demands of these clients? (In terms of core competency and resources)	Internal segmentation
Have you done a formal assessment of capacity in the business? If so, do you know how many and what type of clients you can manage effectively with your current resources?	Internal segmentation
Can you describe the type of services you perform and the ratio of these over the last year? What do you anticipate will be the type of services you foresee yourself spending most time on in the next five years?	Define offer

What type of segmentation approach do you use and why? How effective is this in helping you reach out to the clients you wanted to connect with and how profitable has it been? Is this approach aligned to your value proposition?	Client segmentation
Have you asked clients for feedback in the last year in order to assess the effectiveness of service?	Client segmentation
What are the biggest fears/financial concerns that your clients face today (existing and future clients)? How are you equipped to serve these clients' needs? How do you assess these fears?	Client segmentation - Behaviour
Do you have a defined service plan, communication plan for clients? How do you deliver on these plans per segment?	Client segmentation in practice
What is your understanding and feeling of RDR? Do you feel that you are well positioned to deal with the possible changes this will have for the business?	RDR
How do you feel about introducing yourself according to the RDR definitions to clients, and will this have an impact? If so, how do you anticipate the change to affect you, in terms of clients and revenue?	RDR

3.8 Conclusion

The findings from the qualitative questionnaire allowed for an analysis of client segmentation as well as the practices required to support the implementation of an effective client segmentation that will fulfil the objectives outlined in Chapter 1. These findings, with the literature on effective segmentation, informed the researcher on what activities and approaches are successful in meeting the requirements of effective client segmentation as described in Chapter 2. This information formed the basis of a best practice guide to client segmentation for financial advisors working under the licence of Company A.

CHAPTER 4 DISCUSSION OF FINDINGS

4.1 Introduction

The findings of this study are based on qualitative and semi-structured interviews with eight financial advisors from Company A, based on the methodology described in chapter 3 of this research. These particular financial advisors were invited to participate in the interviews, based on the diverse client market they serve, advisory practice type, and years of experience and knowledge of financial planning.

The number of financial advisors working under Company A's licence was numbered at 47 at the beginning of January 2015, at the commencement of this research, and is now approximately 59 in September 2015. These advisors are based in various offices across South Africa, serve different markets, and have different areas of expertise or specialisation. The findings of this report are therefore not necessarily indicative of the segmentation practices of all advisors from Company A.

The objectives of the interview questions were to:

- Determine how financial advisors at Company A see themselves in terms of their client-facing role and their service offering;
- Query if the financial advisors have a personal value proposition. If the advisors do have a personal value proposition, then the objective is to assess if this proposition ties in with the description of how the advisors see themselves as described above;
- Assess if the financial advisors segment their client base, and if they do segment the client base, to document and compare the method used to segment the client base in relation to the aforementioned objectives;
- Assess if any qualitative or behavioural aspects of the client is considered when the advisor segments the client base; and
- Determine the advisors' level of understanding regarding Retail Distribution Review (RDR), with specific reference to the RDR description of an advisor in terms of his/her service offering and activities relating to the client.

A summarised version of the interviews is presented in table format for each question. Additional qualitative information that the financial advisor discussed during the interview is presented in the explanatory paragraph below each question set.

The results of these interviews are presented in the conclusion of this chapter. This is followed by Chapter 5, detailing the recommendations based on the findings and a 'Terms of reference guide' for client segmentation for financial advisors at Company A.

4.1 Findings

Questions 1, 2, and 3

Questions 1, 2, and 3 below, were intended to determine how the advisors see themselves with respect to their professional role and product offering. Although these questions are semi-structured, the questions were open-ended and allowed for multiple answers.

Question 1: How would you describe yourself as an advisor today (investment planner, financial planner, wealth planner, other, etc.)?

Question 2: How would you describe yourself as an advisor in five years' time (investment planner, financial planner, wealth planner, other, etc.)?

Question 3: How would you describe the practice in terms of provider affiliation (e.g. independent, multi-tied, or tied mostly)?

Table 4.1. Summary of *Questions 1, 2, and 3*

PARTICIPANT	QUESTION 1	QUESTION 2	QUESTION 3
A	Wealth planner	Wealth planner	Multi-tied
B	Financial planner	Financial planner	Multi-tied
C	Financial planner	Financial planner	Multi-tied
D	Financial planner	Financial planner	Multi-tied
E	Risk specialist and financial planner	Risk specialist and financial planner	Independent
F	Financial planner	Financial planner	Independent
G	Financial planner	Financial planner	Multi-tied
H	Financial planner	Financial planner	Independent

Seven out of eight advisors described themselves as ‘financial planners’ in Question 1. Of these seven, participant E described himself as a risk specialist, as well as a financial planner. Participant A described himself as a ‘wealth planner’.

None of the participants foresees a change in their roles in five years as all participants explained that the roles and descriptions of Question 1 will still apply in the medium- to long-term, as noted in Question 2.

Six of the participants further elaborated that they see themselves as ‘financial planners’ or ‘wealth managers’, as they provide ‘independent’ advice. The term ‘holistic financial planning’ was mentioned by four participants with respect to Questions 1 and 2.

In the Retail Distribution Review Report of 2014 from the Financial Services Board (FSB), a distinction is made between three types of advisors. These advisor types as recognised by the FSB in terms of the product offering provided by the advisors are independent financial advisors (IFA’s), tied advisors, and multi-tied advisors.

The FSB description of an independent financial advisor (IFA) hinges on two criteria. The first criterion is the independence the advisor has with respect to the product offering as well as product suppliers. The second criterion relates to the independence the advisor has from product supplier influence. In contrast to this, tied advisors, are restricted by a contract or employment mandate to one product supplier only. According to the FSB, should an advisor not fit into the category described as 'tied', and not meet all the criteria of an 'independent financial advisor', then the advisor is 'multi-tied'.

Question 3 allowed for an open interpretation of the practice in terms of product offering. Although the terms of 'independent, multi-tied, and tied' were provided as an example, the participants were encouraged to provide their own views describing the practice. Five of the participants described themselves as 'multi-tied', whilst three of the participants used the term 'independent' with respect to the provider affiliation.

Six of the eight participants elaborated that they are aware of the FSB criteria relating to the description of financial advisors, and hence, felt that the terms 'multi-tied' or 'independent' applied to them, but they did not agree with what this meant with respect to their advice or product offering. All of the participants described themselves as independent in terms of the advice that they provide to clients. Three of the participants who described the practice as 'multi-tied' felt that since they held multiple contracts with various product providers, and not hold all contracts with the 'universe of providers in South Africa', this meant that according to the FSB's RDR, they will be described as 'multi-tied'. These participants mention that as they use independence in selecting the product according to client needs, they are in fact 'independent' in terms of product affiliation.

Question 4

Question 4 to Question 6.1 relates to the financial advisors' value propositions, documentation, and implementation thereof. The responses to Question 4 are as follow:

Question 4: How would you describe your value proposition in 30 seconds to a client?

Table 4.2. Summary of *Question 4*

PARTICIPANT	QUESTION 4
A	My job is to help guide you to financial freedom and to manage wealth and the emotions associated with wealth and markets.
B	I provide comprehensive financial planning advice, as well as investment scenario planning to help your to achieve your goals.
C	Our product is advice. We will create a strategy and walk that road with you.
D	I offer needs-based financial and investment analysis based on your lifestyle. This approach is different from the traditional product-driven solution.
E	I will add value to your knowledge of your financial situation by using investment tools and analysis and still ensure that at all times you receive totally independent advice.
F	I ensure that your financial affairs are well looked after in terms of estate planning, retirement, and investment planning.
G	I grow and protect your wealth, on your behalf, by providing you with holistic financial planning and advice.
H	I am an independent financial planner to people who understand the importance of retirement planning. I provide holistic retirement and wealth planning advice so that a client can meet their lifestyle needs and goals, whilst remaining financially independent through their retirement years. I pride myself on simplicity, seamless service, and professional client relationships.

The responses were varied but the overwhelming number of responses was based on a broad description of services and was not descriptive or restricted to a particular target market, with the exception of one participant. The value proposition as described by Participant H, focussed on retirement planning and retirement advice. This indicates that the participant may have selected a target market and service to focus on.

Questions 5 and 5.1

Question 5: Do you have a documented value proposition that speak to your core capabilities?

Question 5.1: If yes to the above question: To what extent is this communicated to existing and prospective clients?

Table 4.3. Summary of Questions 5 and 5.1

PARTICIPANT	QUESTION 5	QUESTION 5.1
A	No	Not applicable
B	No	Not applicable
C	No	Not applicable
D	Not yet	Not applicable
E	No, but I use Company A's value proposal	New and existing clients receive Company A's brochure, which describes the value proposal
F	No	Not applicable
G	Yes, we use Company A's value proposition	Yes, this is communicated at the first meeting
H	Yes and it is tied to my core capabilities	Although not formally communicated, all clients understand the value proposition.

Three of the eight participants had a documented value proposition. These were Participant E, Participant G, and Participant H. Of these, participants E and G, used Company A’s value proposition and communicated this to the client at the first meeting. Participant E noted that although Company A's value proposition was used; this was not a personal value proposition.

Participant H used a personal value proposition that was tied to the core capabilities of the participant. However, this was not formally communicated to the client but the participant felt that clients are made to understand the value proposition during their interactions with the practice.

Questions 6 and 6.1

Question 6: Do you articulate your value proposition to your support team?

Question 6.1: If yes to the above question: Does your support team understand the value proposition?

Table 4.4. Summary of *Questions 6 and 6.1*

PARTICIPANT	QUESTION 6	QUESTION 6.1
A	No	Not applicable
B	No, but my assistant understands what is required in terms our value proposal relating to service levels to clients.	Yes, my assistant understands even though this has not been articulated. The value proposal is reflected in way we deal with our clients.
C	No	Not applicable
D	No	Not applicable
E	No	Not applicable
F	No	Not applicable
G	Yes	Yes
H	Yes, it is part of our business practices	Yes, this is reflected in our corporate culture in my practice and reflected at all levels and activities including the way we treat clients.

Two of the eight participants articulate the value proposition to the support team. These are the same participants who note in Question 5 that they have a documented value proposition. Both participants feel that the support team understands the value proposition.

Participant B notes that although the value proposition is not documented, it is understood by the support team.

Question 7

This question was intended to determine the ideal client in order to consider if this client group is addressed in the value proposition and subsequent client segmentation.

Question 7: Please describe your ideal client and/or client group that you would prefer to work with?

Table 4.5. Summary of Question 7 (Part 1)

PARTICIPANT	QUESTION 7
A	Self- employed with a monthly income in excess of R50 000 and / or investable assets over 1 million rand
B	Between the ages of 40 and 60 years, high-income earner with an income of or exceeding R2 million/annum (cost to company), educated, who shares common interests with me.
C	Client who has a net asset value of R5 million plus and is over 50 years in age.
D	High net worth individual who understands that he/she requires advice and is open to my recommendations and makes use of the wide service offering we provide.
E	Professional business owners with an annual turnover of, or exceeding R15 million. For private clients, preferably an individual with a net asset base of at least R20 million.
F	High-net worth clients with an investment asset value of R5 million or more.

G	Middle to upper-income market with an income of at least R40 000/month, financial stable or nearing the end of the wealth 'accumulation phase' (nearing retirement).
H	Age group of 55 years or more, at least R1 million in investable assets OR with assets from which a meaningful trail fee can be earned, is a source of referrals, and is slightly 'illiterate' meaning open to financial advice.

The findings suggest that the predominant criterion or factors considered for the ideal client is based on the client's income, assets under management with the advisor, the age, and the net asset value of the client. These factors are summarised below.

Table 4.6. Summary of Question 7

PARTICIPANT	INCOME FACTOR	ASSETS UNDER MANAGEMENT FACTOR	AGE FACTOR	NET ASSET VALUE
A	Yes	None	None	Yes
B	Yes	None	Yes	None
C	None	None	Yes	Yes
D	None	None	None	Yes
E	Yes	None	None	Yes
F	None	Yes	None	Yes
G	Yes	None	Yes	None
H	None	Yes	Yes	Yes

The client's net asset value is the most common factor considered by the advisors in terms of the describing the ideal client, with six of the eight participants noting that this is a consideration when describing the ideal client. Interestingly, assets under management (AUM) or assets controlled by the advisor are a factor for only two of the eight participants. This suggests that the future value or potential value of the ideal client might be more relevant, compared to the existing clients with assets under management, for most of the advisors interviewed.

Income or the earning ability and the age of the client was a factor for four advisors of the eight advisors interviewed.

Additional qualifying factors used to describe the ideal client are noted below:

- The client should ideally share common interests with the advisor (Participant B);
- The client understands the need for advice and is open to recommendations as well as openness to use the wide service offering that the advisor can provide (Participant D); and
- The client could ideally be someone who would take financial advice seriously, and is receptive to financial advice. The client could also ideally be a source of referrals (Participant H).

Participant H offered the most detailed criteria set, which included assets under management, client age, net asset value, and other qualifying considerations. These criteria are aligned to the participants' stated value proposition.

Question 8

Question 8: Do you set minimum standards or entry levels to ensure that you only service as close an approximate to your ideal client? (Elaborate.)

This question was relevant in order to assess if the criteria for the ideal client is considered as part of the entry level before a potential client is considered.

Table 4.7. Summary of Question 8

PARTICIPANT	QUESTION 8
A	Yes
B	Not yet
C	No

D	Yes
E	No
F	No
G	No
H	Not yet

Two participants acknowledged that they do set minimum entry levels for new clients. Participants A and D note that clients are screened at the first meeting when the 'client fit' can best be judged by the financial advisor. Participant A has two levels of screening, the first is at the initial contact stage when the assistant will initially screen the client and the second instance is at the actual client meeting if this then occurs. Should the client not meet the criteria, both participants relate that the client is referred to an alternate advisor.

Participant D notes that referrals of new clients are difficult to 'turn away' as a relationship is involved. This sentiment is echoed in statements from a number of participants as described below:

- '... I will not turn anyone away because for practice building, one needs a diverse client base...' (Participant C)
- 'Everyone needs advice.' (Participant E)
- '... We do not get many non-ideal clients. But if we do, we never turn anyone away and treat it as part of our pro-bono work.'

Participants B and H note that they would prefer to set minimum standards at some point as noted below:

- '... I will prefer to choose the client I want to work with.' (Participant B)
- Although the advisor acknowledged the value and the cost versus return factor in providing a service to the client, Participant H notes that he still believes that every client must be treated equally.

Questions 9 and 10

Resource allocation and capacity is a key consideration in order to ensure that one is able to deliver the type and level of service promised to the client in the value proposition and to service the ideal type of client. Questions 9 and 10 are intended to assess if the capacity of the practice and the financial advisor is sufficient and adequate to meet the client demand from the advisors point of reference.

Question 9: Do you feel you have the right or sufficient resources and tools to support you in delivering your value proposition to clients? (Capacity to meet supply with demand)

Question 10: Is technology and staffing requirements an additional cost or expense factor, or wealth generator? Please elaborate.

Table 4.8.. Summary of Questions 9 and 10

PARTICIPANT	QUESTION 9	QUESTION 10
A	Yes	Wealth generator
B	Yes	Wealth generator
C	Yes	Wealth generator
D	Yes	Wealth generator, but a bit of both
E	Yes	Wealth generator
F	Yes	Wealth generator
G	Yes	Wealth generator
H	Yes	Wealth generator

The participants' responses were unanimous for both questions described above.

Participant B elaborated that an additional human resource in the future will likely be required, as the client base grew and more support is needed to service the clients. This will allow the advisor to focus on relationship building activities and client 'nurturing', which drives new business, instead of client servicing.

Participant E notes that although resources are not lacking, additional staffing allocation is likely to increase business efficiency by at least 10%.

The participants agree that staffing and technology is more of a wealth generator than an expense factor. Participants D and G agree that these resources are a wealth generator but this is dependent on how technology is actually used.

The results indicate that the participants feel that they have adequate resources to provide the services they describe.

Question 11

The type of services, and ratio of these services to one another, which the advisor provides is a proxy of the 'shape of the advisor's book'. This is because the type of service offering will indicate the nature of products sold and therefore provides one with a guide of the income generation in terms of trail fee from AUM and up-front fees from life or risk related products. The client value proposition and client segmentation method would be cognisant of the client type, client behaviour, and lifestyle needs that reflect these service types.

Question 11: Can you describe the type of services you perform and the ratio of these over the last year?

Table 4.9.. Summary of Question 11

PARTICIPANT	QUESTION 11	IDEAL RATIO BETWEEN SERVICES OFFERED
A	20% personal risk planning, 50% wealth management services, 30% employee benefits	Ideal is the same ratio
B	80% investment services, 20% risk services	Ideal is the same ratio
C	70% investment business, 30% risk business	Ideal is 90% investment business
D	15% fiduciary services, 70% financial advice and investment, 10% tax services	Ideal is 80%-85% investment services
E	20% business analysis, 60% personal	Ideal is 50%-60% investment

	analysis, 20% investment analysis	
F	80% investment business, 15% estate planning, 5% business assurance and risk management	Ideal is the same ratio
G	75% investment planning, 15% risk planning, 7% estate planning and 3% admin	Ideal is the same but prefer 80% investment planning
H	80% wealth planning, 5% risk business, 15% admin services	Almost ideal, but working to reduce admin

The responses indicate that the greater proportion of services is dedicated to investment business or services. This is described as 'wealth management services', 'investment services', 'investment business', 'investment planning', and 'wealth planning' by the participants.

Risk related advice that leads to business associated with the sale of a risk or life policies is identified by the following terms used by participants; 'personal risk planning', 'risk services', 'risk business', 'personal analysis', which is planning used to determine risk cover required, 'risk management', and 'risk planning'.

A distinction is made between the aforementioned investment business, from investment or wealth services and risk business. Investment business is usually structured to provide a fee income on the clients' investment value on an ongoing basis. Risk business is more often based on a commission structure with a once-off commission being paid up-front to the advisor from the product provider when new business is submitted.

'Employee benefits' may be a combination of both risk business from the sale of group life cover and investment business from the sale and administration of pension and provident fund structures.

'Admin services' are non-income generating activities that would include preparing client files and analysis, as well as servicing existing clients and responding to clients' queries.

‘Tax services’ and ‘fiduciary services’ are considered complementary and additional value-adding services in the context of this research; these complementary services are relevant to two of the eight participants interviewed and does not form part of the core offering to clients.

All participants concur that the current ratio is unlikely to change and that the ratio indicated is close to the ‘ideal’ they would work toward in the future. It is important to note that there is no universal ‘ideal’ ratio in terms of service offering, as the provision of services is unique to each advisor and is a matter of preference based on experience, knowledge, and deliberately chosen focus. Therefore, the service offering and advisor preference should be reflected in the value proposition and the criterion chosen in the client segmentation.

Questions 12, 12.1, and 12.2

The manner of client segmentation and the alignment of the segmentation to the value proposition will determine the effectiveness of the segmentation method. The discussion based on the finding from Questions 12, 12.1, and 12.2 are therefore addressed together after the summarised presentation that follows hereunder.

Question 12: If you do segment your client base, what type of segmentation approach do you use and why?

Table 4.10. Summary of Question 12

PARTICIPANT	QUESTION 12
A	No formal approach to client segmentation. As a guideline consider three factors; Ability to earn recurring income of at least R6 000/annum from managing client portfolio, ease of doing business, future earning ability of client and fit with the 'ideal client' description.
B	No formal approach but would like to find a method that will allow me to focus time on value clients.
C	No formal approach, 'A clients' would likely fit description of ideal client and balance would fit the 'B and C clients'.
D	No formal approach but tend to match time spend on client with income revenue earned from managing the clients' portfolio.

E	Yes. 'A clients' have an investment value of R20 million plus OR life cover R15 million plus, 'B clients' have R5 million - R20 million investment value with me OR have a business with more than 3 directors OR are family of 'A clients'. 'C clients' are those not described.
F	Yes. 'A clients' meet me regularly or/and have investments with me (I do not differentiate on size). 'B clients have done risk business with me. 'C clients' are the balance who do not fit 'A or B' category.
G	Yes. 'A clients' have R5 million plus invested with us, 'B clients' have between R2 million and R5 million invested with us, 'C clients' have risk business mostly and are accumulating wealth and 'D clients' do not fit the aforementioned categories.
H	Yes, segmentation is based on 4 criteria and the weighting across these criteria. Listed in order of relevance, these are: Asset under management between R1 million and R10 million plus (weighting 40%), future business potential or future trailer fee expected (weighting 30%), number of referrals over the last 12 months between 0 and 3 plus (weighting 20%), and age group with the ideal being between 60 to 65 years (weighting 10%).

Question 12.1: How effective is this in helping you reach out to the clients you wanted to connect with and how profitable has it been?

Question 12.2: Is this approach aligned to your value proposition?

Table 4.11. Summary of Questions 12.1 and 12.2

PARTICIPANT	QUESTION 12.1	QUESTION 12.2
A	Not relevant, but profitability of each client is gauged by determining if income of at least R6 000/annum on a recurring basis for portfolio management is possible.	Yes, it is aligned
B	Not relevant, but by spending time with 'important' clients, I have seen profitability increased despite not having a lead/referral base.	Yes
C	Not relevant	Not applicable

D	Though not formal, it is effective because time spent on clients where revenue from assets validates time spent ensure effective resource allocation.	Not applicable
E	Yes, it is effective	Yes, it is aligned
F	Yes, it is effective	Yes, it is aligned
G	Yes, it is effective. Profitability has increased and assets have grown at least 62% over the last 2 years.	Yes
H	No marked difference	Yes

Four participants (Participants E, F, G, and H) have a formal approach to client segmentation. Of these, Participants E, F, and G, feel that the approach used has been effective in connecting to clients and is a profitable approach. Participant H confirms that the effect in terms of communication and profitability has had no marked difference, as the segmentation method is not yet fully implemented.

In addition, participants E, F, G, and H note that the segmentation method described is in alignment with their value propositions. Participant A has an informal semi-formal approach to client segmentation that the participant feels is aligned to the value proposition.

It is interesting to note that despite not having a formal segmentation method, participants A, B, C, and D have provided a detailed description of the informal approach used when they meet and assess clients, at either a subconscious level or a semi-formal manner. Participant A, for example, notes that three factors are considered when clients are assessed. Part of this consideration is the required bare minimum annual revenue required to continue serving the client and to remain profitable as a practice. Similarly, participant D uses an informal approach to determine if the revenue earned by servicing a client is representative of the time required to service said client. Participant D considered 'time' as the required resource to earn revenue from providing client advice or services. That said, the advisor acknowledged that the effectiveness and profitability of this approach was difficult to determine. This may be due to a lack of fixed variables, which would provide a more objective basis to segment clients, and will make it difficult to conduct a costing for the various services provided.

Question 13

Based on the response from the preceding question, participants were asked to describe the steps taken when the client segmentation method described earlier was considered.

Question 13: How do you approach client segmentation? (Provide a description of steps taken when devising a client segmentation method from deciding on client type to implementation.)

Table 4.12. Summary of Question 13

PARTICIPANT	QUESTION 13
A	Not applicable
B	Not applicable
C	Not applicable
D	Step 1: identify client needs and expectation. Step 2: determine net assets and assess budget. Step 3: consider client personality. Step 4: categorise on file
E	I decide which segment client falls under after business concluded but approach is flexible.
F	Semi-formal approach, which is done as and when I meet client depending on net asset value and frequency of client contact.
G	Step 1: determine what product type/s client has with us. Step 2: determine size of this product/s. Step 3: determine fees on said products. Step 4: consider client himself/herself and assess their needs. Step 5: consider client fit or if I enjoy working with the client.
H	Step 1: decide which factors make up the perfect client. In my case, these were; age, assets under management, future trail fee, and clients as a referral source. Step 2: classify each client accordingly.

The responses indicate that participants D, G, and H, had a more definitive method of approaching client segmentation that included both quantitative and qualitative factors. The approach described by Participant H was the most refined and objective. The factors or variables were determined in a clinical manner and were then assessed on a weighted average calculation, dependent on the priority of each of the factors.

Question 14

In order to understand what would prevent financial advisors from determining and implementing client segmentation, advisors were asked the following open-ended question:

Question 14: What are the challenges you face when considering, reviewing, and implementing client segmentation?

Table 4.13. Summary of Question 14

PARTICIPANT	QUESTION 14
A	It is likely to be a time-consuming exercise.
B	The challenge I foresee is being able to differentiate service to different client groups or segments. I cannot validate doing this and do not see the point of segmentation.
C	Since I have not actually segmented my client base, I have not experience any difficulty. I would anticipate that this is a time-consuming exercise, which requires one to work through volume and can be too technical.
D	Time-consuming process that must be managed; it must be reviewed and revisited. Implementation is difficult, as one must be prepared to 'remove' C or D clients if required. It is difficult to explain why clients will not receive the same level of service or attention.
E	The 'fluidity' and unpredictability of client loyalty presents a challenge in grouping a client in a certain category. Client segmentation is very theoretical and the experience in practice, or the reality of how clients should be treated, differs from

	what the 'segments' suggests.
F	No challenges experienced as segmentation is done on an 'as and when' basis after each client meeting.
G	No big challenges experienced but time to review the client base was an issue initially.
H	Emotional aspect makes implementation difficult to classify and implement according to the client groupings.

The difficulties experienced when the advisors segment their client bases, and discussed at various points throughout the interviews, were related to the following:

- Segmentation is viewed as a time-consuming exercise.
- Three participants felt that segmentation is a rigid manner of dealing with clients and would therefore, not 'fit the practice needs'.
- An over-riding concern from seven participants was the idea that segmentation meant that some clients would receive 'unequal' services.
- The same seven participants also noted that although segmentation is relatively 'easy to conceive', implementation is difficult, as they felt that this would imply that the service offering to certain groups of clients would either be reduced or stopped. Several participants noted that communicating this change to a client would not be easy.

Question 15

Implementation of a client segmentation strategy is applied at all levels. This means that clients receive a certain level of service according to the segment and value that the client generates for the business.

Question 15: Do you have a defined service plan, communication plan for clients? How do you deliver on these plans per segment?

Table 4.14. Summary of Question 15

PARTICIPANT	QUESTION 15
A	No, but certain clients would receive more data depending on their interests.
B	No
C	No. I would consider differentiating between 'product experiences' in order to send out mail relating to the product.
D	Not really, but I do spend more time with 'A' and 'B' clients.
E	No
F	No
G	No, but we are working toward this.
H	No, but we are working toward this.

Participants note that communication is mostly in the form of emails, phone calls, and meetings. Although no participants differentiate between the different client segments in terms of a service plan or communication plan, most of the participants described the following activities relating to client communication and engagement:

- Bulk emails on a monthly basis from Company A regarding market news.
- Three participants send out personal mail-shots to certain client groups relevant to the clients' area of interests. These client groups were not part of a particular segment and the communication was sent having regard to the clients' interests, age, or financial knowledge.

Despite responding 'negative' to this question, it was noted that participants A, D, E, F, G, and H discussed 'spending more time' with the A segment, B segment, and potential A segment clients. This is based on the advisors' 'loose' definition of A, B, and C segment clients from the informal segmentation approach adopted by said advisors.

Questions 16, 16.1 and 16.2

Quantitative measures to segment clients are based on the monetary and quantifiable variables of the client segment. Qualitative measures that consider lifestyle and behavioural aspects are now associated with a more value added segmentation. The following questions are meant to determine how these 'softer issues' are considered by the participants.

Question 16: What are the biggest fears/financial concerns that your clients face today?

Question 16.1: How are you equipped to serve these clients' needs or deal with the above concerns?

Question 16.2: Do you segment clients according to lifestyle or behavioural factors?

Table 4.15. Summary of Questions 16 and 16.1

PARTICIPANT	QUESTION 16	QUESTION 16.1
A	The inability to retire due to insufficient savings.	I have the knowledge and ability to guide the client and find optimal solutions for each client, as well as the ability to bear with these emotions.
B	The Rand depreciation and the impact this has on the value of the clients' shares.	I am able to educate the client and provide the psychological support required.
C	The inability to sustain ones standard of living at pre and post-retirement stage.	I have the knowledge and experience to educate to deal with these concerns.
D	Loss in investment assets due to concerns relating to the South African political landscape and international economic	My approach is based on managing the clients' expectations and reassuring them with the perspective that over the medium- to long-term and the various crises we have survived.

	crisis.	
E	The collapse of their business and loss of capital in the equity market due to market volatility.	The first issue is not in my control and is the clients' personal fear. I am able to address fear and the clients' reaction to market volatility by educating the client and managing expectations.
F	Fluctuating markets, Rand depreciation, Eskom problems	It is a matter of putting the clients' minds at ease to remind them of the long-term strategy.
G	Running out of money and geopolitical risk (which includes political issues and currency devaluation).	I have the knowledge and experience to educate and support the client through this.
H	The uncertainty of not knowing if one will lose all one's money.	Well equipped to educate the client away from greed. I have the resources and knowledge to deal with these concerns.

Client concerns ranged across the following issues:

- Loss of capital due to market volatility;
- Outliving ones capital at retirement and not being able to sustain ones standard of living; and
- Fluctuating markets, Rand depreciation and concerns around geopolitical risks.

The participants were confident that they had the resources, knowledge, and experience to deal with these concerns by educating clients and dealing with the emotional aspect of these issues.

It is interesting to note that the concerns noted were general and not specific to a client type or accounted for in terms of the client lifecycle. Not surprising then, the findings from Question 16.2 confirm that client behaviour and lifecycle are not taken into account for segmentation purposes. All participants responded in the negative to this question.

Questions 17 and 17.1

Question 17: What is your understanding and feeling of RDR? (This is in terms of the changes to the description of 'advisor' according to the service offering and product provider affiliation the advisor has. This description outlines the activities that the advisor can provide and charge when servicing a client that is meant to lead to greater transparency around fees and activities and an end to up-front commissions.)

Question 17.1: How do you anticipate the change to affect you, in terms of clients and revenue?

Table 4.16. Summary of Questions 17 and 17.1

PARTICIPANT	QUESTION 17	QUESTION 17.1
A	Good understanding	No change in my practice, I have a mature and steady revenue stream to rely on.
B	High level of understanding	No change expected as I have aligned to a business with no up-front fee charge.
C	Good understanding	No change expected as I rarely take an up-front fee.
D	Good understanding	Hopefully, not too big an impact. I have been gearing up over the years to build a practice on advisory fees that is aligned to RDR.
E	Good understanding	No big change expected but there is likely to be an impact when changes on the life commissions are implemented.
F	Good understanding	No change expected.
G	Good understanding	No change as I am well positioned to deal with RDR requirements.
H	Good	No change anticipated as I have changed to an ongoing fee

	understanding	based practice.

All participants have a good understanding of the general changes that have been made and that are expected in terms of RDR and the focus on the advisor service offering. Although the general sentiment voiced was positive, there was some concern regarding the inadvertent impact RDR will have on the advisor community. It was noted that despite the best intentions, RDR legislations will 'box' advisors incorrectly that will affect clients negatively and lead to a loss of income for some advisors.

With respect to question 17.1, almost all participants note that there is unlikely to be any change to their practices in terms of revenue and/or client type, as their current model is geared or has been gearing up for this change. Participants D and E indicated that although no big change is anticipated to their practice in terms of client type or service offering, revenue income could possibly be affected over the long-term.

It is important to take into account the following factors when evaluating this response:

- The business model of Company A was designed to offer support to fee-based practices.
- The number of years of experience and the value of the client book of these participants that allows for a business model, focused on service and fee-based income.
- The participants and advisors that have joined Company A are required to re-establish their relationships with their clients under the Company A licence as advisors. This process, known in the industry as 'on-boarding', means that the advisor is required to make contact with the client, introduce himself/herself under the new licence and value proposition. Advisors are likely to establish contact with clients in order of priority based on the client's net asset value, value of assets under management, and revenue. This is likely to increase advisor activity intended to increase assets under management and subsequently, revenue from managing these assets. Ultimately, advisors who

manage a large asset book, which generates an ongoing fee income, are better positioned to meet the outcomes required from RDR.

4.3 Limitations

Due to the sensitive nature of the information provided, certain details of the participants were withheld in the report but are of relevance to the findings. The demographics, experience, qualifications, number of years as a practicing advisor, number of years with Company A, and current value of the asset book managed by the participants, are relevant, as this would provide insight and background to the responses provided.

It is also worth noting that the current regulatory environment in the South African financial services industry is undergoing many changes that will affect the financial advisors' remuneration structure and service offering. This means that the results presented may likely be very different when these anticipated changes are a reality in the industry, and will be difficult to replicate.

Confidentiality and anonymity agreements restrict the details of the business model of Company A that may be described in the report. This is relevant as the business model is supportive of fee-income practices and is therefore different from the traditional Financial Services Providers (FSP's) in South Africa. This means that the results of this report are unique to Company A's advisors.

The researcher is an employee of Company A and financial advisor to an independent FSP and may have experiences and opinions that could create a bias in the reporting. The researcher is mindful of these biases and conscious of the importance of remaining independent in order to report and relate findings in a consistent manner, free of bias or conflict of interest, as much as possible.

4.4 Summary of findings

The summary of findings below provides some broad insight in response to both the primary research and secondary research questions:

- Why do some financial advisors, from Company A not segment their client base or implement a client segmentation strategy?
- Do the financial advisors from Company A, who segment their client base, align the segmentation to the value proposition and the client service offering?

The framework used to guide the analysis of client segmentation in Company A was based on the elements required to implement client segmentation as identified in the literature review (Chapter 2, p13). Therefore, the aforementioned research questions are answered in this context hereunder.

Throughout the discussions, participants related that they see themselves as 'independent financial advisors'. There was some discrepancy between this description and the FSB description of an advisor as acknowledged by several participants themselves. However, the participants pointed out that the distinction that they consider as defining, is the act of 'providing advice'.

Except for Participant H, the value offering or service recognised in the value proposition statements was not focused on a particular client market or segment. Although the participants were aware of the knowledge, qualification, and experience or area of specialisation that made up their offerings, it was not specifically acknowledged in the description of themselves as advisors in Question 1 or in the value statement. The exception was Participant E who noted his area of specialisation in Question 1. This would indicate that most of the participants are not fully cognisant of their value as advisors and could not define the service offering in more specific terms. This may explain why the participants struggled to articulate a value proposition.

Despite this, the participants were able to provide relatively detailed descriptions for the ideal client or ideal market they wish to service. This description was closely related to the informally or formally identified client segments as 'A segment' or 'B segment' clients. Related to this are interview questions 12, 12.1, 12.2 and 13 regarding the current segmentation methods adopted by the participants. These responses provided insight to the first objective of this study, which is to review the current client segmentation methods.

Four of the participants stated that they had a formal client segmentation approach. However, only Participants G and H were able to provide a detailed description of the basis of the method used. None of the participants implemented the segmentation described at the client service level. This may partly be due to the sentiment shared by many participants regarding client segmentation.

Six of the eight participants recognised the need for client segmentation but the over-riding sentiment is that client segmentation will lead to inequity in the treatment of clients. Two of the participants noted that in the South African market, advisors are unable to ‘pick and choose’ whom they would like to work with and noted that segmentation might negatively affect profit margins. All participants note the difficulty involved in implementing a client segmentation strategy. The participants indicated that they could not justify reducing or ceasing to provide services to certain client groups, which they felt is required when one implements client segmentation.

Five participants noted that the time allocated to certain clients was based on the ‘client need’ rather than the segmented value of the client. Only two participants note that the support team recognise the client segments and prioritise accordingly. The interviews indicated that most of the participants did not actively ‘price’ the service offering and value-add per client in a structured manner. Two of the participants noted that this is part of the consideration. One of these participants understood that a minimum recurring income of at least R*x*/annum was required per client in order to remain ‘profitable’. The second participant noted that the cost implications are now becoming apparent but is yet to implement the client segmentation strategy recognising the profitability or non-profitability of certain client groups.

The alignment of resources and implementing the chosen client segmentation is difficult for the reason cited above. It also highlights the reasons why advisors do not segment their client base, objective 3 of this study. Resource allocation in terms of technology and human capital were mostly sufficient and adequate and did not impede client segmentation or its implementation. It must be noted that although client segmentation was not implemented in most cases, all the participants had in mind an informal rudimentary or a formal segmentation method.

The segmentation methods described were both qualitative and quantitative. Most of the variables were quantitative and used traditional variables such as assets under management, fee income or trail fees, client net asset value, client income and age. Qualitative measures that were used to describing clients' qualities desirable as 'ideal' were common interests, personality, openness to advice, etc. Four of the participants described the enjoyment they derived from their work and working with certain client types. The following remarks reflect the importance the participants felt for working with clients that the participant enjoys working with:

- '... He may not be an A or B client but I enjoy working with him so I treat the client as an A client...'
- '... Because there is chemistry and we are mates, I see potential in the future even though he is not a client now...'
- '... Some clients are good for my soul...'

All the participants responded in the negative when asked if they considered qualitative factors such as client lifecycle or behavioural characteristics as part of the client segmentation. However, five participants noted that they would consider the future value or potential value of a client to determine if the client was an 'A' or 'B' client, despite the client not having concluded business with the participant yet. This was assessed in various ways by the participants and described hereunder:

- Three of the participants noted that although they prefer to work with retired or clients close to retirement age, they acknowledged that younger clients with earning potential, (earning potential based on education or employment status) could potentially be considered high value clients ('A' or 'B' clients) in terms of the client segments.
- The phrases, 'accumulating wealth', 'up-and-coming professional' were used by a number of participants recognising a client at a certain lifecycle stage with potential.

It would appear then, that at some level the participants do employ a lifecycle approach to segment clients.

The above responses, in the context of the literature review, provided additional qualitative data in response to the fourth objective of the study, thus informing the researcher of the elements required to implement client segmentation. These are presented in Appendix A as a 'Terms of reference guide for client segmentation.' This 'Terms of reference', speaks to the final objective of the study and is meant to guide financial advisors at Company at to determine and develop their value proposition and the client segmentation which is best aligned to their value proposition.

4.5 Conclusion

The methods employed in identifying value in client groups, aligned to the value proposition in order to segment the client base are relevant in light of the changes that the FSB's RDR legislation would impose on the financial advisor. The participants were all aware of the changes that are pending, as well as the impact of RDR proposals on their portfolios. In general, the proposed changes were seen in a positive light, based on the intended outcome described by the FSB. The participants indicated that they felt 'well-positioned' to deal with the changes but voiced some concern of the practicality of the proposals in general.

Since RDR proposals hinges on transparency in the provision of services and fees, a defined service offering or value proposition is important, as it would indicate how services are provided and paid for. The value proposition and a lack of clarity on current cost to service suggests that although the participants feel they are well-positioned to work through the changes, the practice management changes required may have been over-looked.

CHAPTER 5 RECOMMENDATIONS AND CONCLUSION

5.1. Introduction

The primary objective of this research was to analyse the client segmentation of financial advisors from Company A. The findings described in Chapter 4 and this concluding chapter meets the aforementioned objective. In addition, Chapter 4 provided a broad overview of the reasons why financial advisors from Company A do not segment their client base or implement the client strategy aligned to their value proposition. The recommendations described in this chapter are intended to address these issues and are in response to the last research question of this study, namely;

- How can financial advisors at Company A develop, refine, or implement a client segmentation strategy that is aligned to their value proposition?

5.2 Summary of findings and recommendations

The financial advisors interviewed were able to describe some method of client segmentation, although in almost all cases, none of these methods were implemented. Research indicates that implementation of a segmentation strategy often fails due to a lack of clarity (Zoghby, 2013). A lack of clarity or certainty of the required result means that business activities and services will not be aligned to meet the client segmentation objectives. The reasons for this lack of clarity in the case of the advisors interviewed were the following:

- The financial advisors described themselves in general terms. None of the participants articulated their personal goals or aspirations, or their special skills, when asked at the onset of the interview. This would indicate that the financial advisors see their own value as akin to the client value. The client value refers to what meets the clients' expectations from an advisor in terms of the service offering and the advisor's professionalism.

  However, the advisors lack insight into their own personal values or the 'owner value' of their practices. The owner value relates to the personal value the advisor wishes to derive from the practice (Vanguard, 2013). Defining one's aspirations and being able to focus on the personal reason for being a financial advisor would assist the advisor in creating the business structure required to support this vision.

- Although the advisors did not describe themselves and the practice in terms of the ‘owner value’, all the participants were able to provide a detailed description of the ‘ideal’ client. However, when asked what their value propositions were, most advisors cited a version of Company A’s value proposition. An effective value proposition should speak to the needs of the ideal client and position the personal competitive attributes of the advisor in order to lead the client to the advisor’s practice (Hassan, 2012; Capgemini, 2013).
- The advisor’s personal value proposition to the client would also guide the implementation of the client segmentation so that the service offering caters to the client value. Hence, an ill-conceived value proposition means that a client segmentation strategy that is not aligned to the business objective will result in disproportionate and unintended services and resource allocation between clients. If there is no clear formal client segmentation, then setting a service standard for each client group is not possible.

  One may deduce that an advisor in this position would struggle to position the service offering to clients. There is no set service standard for each client segment based on the value they would receive and the cost to service said client group. This may explain the difficulty that some advisors from Company A experience when pricing their services and negotiating their ongoing fee for managing assets.
- An internal service standard outlines the roles, responsibilities, and resource allocation required for each client segment. If these standards are quantified, an advisor can determine what may realistically be promised and delivered to clients. The external service standard presented to the client sets the client expectations and quantifies the value the client receives for services that are often unseen. This transparency and clarity of the advisors’ service offering is a requirement aligned to regulatory requirements such as TCF and RDR. Pricing services to the value offered to the client is only possible for the

advisor if the service standards have been prepared based on the client segmentation.

- All participants of the research indicated that they felt strongly about treating clients ‘equitably’ and noted concern that client segmentation results in unequal and possibly sub-standard services. By pricing services based on the service standard for each client segment, advisors will be more confident that the offering is fair and representative. Pricing services according to available resources will allow the advisor to set a deliverable baseline service standard to ensure that professionalism for every client group is maintained.
- This highlights the importance of a thorough assessment of the advisors’ internal resources (staffing, technology, time, and capabilities) because the value proposition is only achievable if the advisor has planned how to use the practice’s capacity to implement the segmentation through the client service standards. Financial advisors who are aware of the resource allocation, for each activity, for each client, will be able to position the price arrangements for services provided more confidently.

Based on the summary discussed above, it is recommended that financial advisors receive support through a change management plan in order to meet these objectives.

It is acknowledged that financial advisors who join Company A are provided with a roadmap and support to assist them in the first few phases whilst they transition the client base to the company and adopt the advisory methodology and culture of Company A. During this time, advisors identify the clients and client groups that will add value to their businesses by assessing the net asset value, assets under management, and revenue income from servicing the client. This means that at some level, advisors are required to segment their client base under their previous advisory licence, in order to prioritise the activity and engagement required to ‘on-board’ these clients to Company A.

The roadmap provided by Company A, supports the advisor in this change management process. The following areas, hereunder, should be covered or dealt with in more detail in this roadmap.

- Provide clarity and inform the advisors of the rationale for segmenting their client base, and ensure that misconceptions regarding the impact of segmentation are addressed. It is recommended that this roadmap includes change management processes that support the advisor in identifying the core capabilities or value add and areas of specialisation the advisor can provide to clients.

  This process may be supported by contributions from the business development managers, as well as regular information, on developing their personal value proposition via emails and forums with other advisors.

- Advisors who have successfully completed the client on-boarding and who are more susceptible to reviewing current practice management practices can be assisted by the business development managers and/or business coaches in identifying the 'ideal client' variables. These variables should then be compared to the core capabilities and value-add that the advisor has assessed in the initial stages, in order to find the balance that is most profitable.

- For both existing and new advisors, the change management strategy should seek to focus the advisors on the following areas that are important in formulating the value proposition, namely identify the qualities and services clients require from the advisor, and identify the client qualities and client type with which the advisor enjoys working. By marrying these areas with the advisor identified core capabilities, the value proposition would be easier to define.

  Existing financial advisors who have completed the client on boarding should be assisted and encouraged to seek feedback from clients to assess if the client experience is sufficiently addressed. An independent research company or fact-finding system could be used, to ensure that the advisor does not feel compromised.

- The findings suggest that advisors are resistant to client segmentation as they believe that this necessitates the culling of 'C or D segment' clients or reducing the service provided to the client. The change management strategy should include an information management process to deal with the reality of client segmentation. This would assist in reinforcing the different approaches that can be taken to deal with less profitable clients without compromising on quality of service.

- Each practice's resource capabilities, operational processes, and client activities should be assessed to determine and highlight the cost to service client at different levels. This assessment should be a voluntary service offered to the advisors and conducted by an independent consultant or researcher so that the advisor does not feel compromised. Advisors should be encouraged to take into account the fee or resource allocation required during client activities.

- It is recommended that less profitable clients and activities be automated as much as possible. Advisors can 'show' clients more efficient ways to help them make administrative changes electronically. Product providers could be engaged in this process to assist in non-advice activities.

- Advisors who have a basic segmentation strategy that has not been implemented should be assisted in terms of finding and understanding the pricing or cost involved in certain client activities. This would make it easier to rationalise the need to segment service equitably.

- Since the methodology of investment planning supported by Company A is founded on meeting the clients' lifestyle needs and goals, Company A advisors should be made aware of the value of recognising and advising clients in terms of lifestyle and behavioural outcomes. It is therefore advised that a structured approach in the client engagement that considers these factors be considered and developed in order to assist the advisor to integrate this approach throughout the planning process. At present, these issues are dealt with during the investment planning stage as part of the fact finding that is required (as noted during the interviews conducted).

- For advisors who have successfully implemented client segmentation in terms of the quantitative variables, adding client segmentation at a qualitative level as an overlay to the current method will assist the advisor to recognise client lifestyle needs and trends that would add more meaning and depth to the client relationship.

5.3 Conclusion

The financial advisors of Company A do apply some criteria to group client, albeit at an informal level. The advisors interviewed have an understanding of the implications of RDR regulation on their practice and do understand the importance of aligning to these outcomes. That being said, it is an opportune time to position the importance and rationale for implementing a client segmentation strategy aligned to their value proposition. The outcome would be improved resource allocation, profitability, and an enhanced client experience that ought to result in increased client loyalty and client retention.

Since a successful client segmentation strategy should lead to an enhanced client experience, measuring this outcome is an essential area to focus on, post-implementation. Advisors may be assisted in carrying out a client survey independently or engage with an independent research professional to survey client experience and ensure that the value proposition is relevant.

Below is the ‘terms of reference’ for client segmentation for Company A’s financial advisors. It is recommended that the company seek feedback and input from the advisors to allow the advisors to make this working document ‘their own’ and to open the discussion around best practices in client segmentation.

APPENDIX 1

TERMS OF REFERENCE FOR FINANCIAL ADVISORS AT COMPANY A

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APPENDIX 1

Terms of reference for client segmentation: A working document for financial advisors from Company A

A1. Introduction

Several participants of the study stressed that client segmentation is ‘personal’ since each practice is unique to the advisor, and the client market they serve. Therefore, this guide intends to provide a broad guideline of best practices based on the literature review regarding client segmentation and Company A’s value proposition. It is intended to be a ‘working document’ for Company A financial advisors that may be expounded on, in order to add depth to the document over time.

The framework of this guide is outlined below.

Section A deals with the foundation required prior to segmenting the client base.

Section A

- A2. Define aspirations - The 'why' according to Simon Sinek's Golden Circle
- A3. The 'ideal client'
- A4. Creating the value proposition
- A5. Assess and align resources and capabilities

Section B outlines two client segmentation methods that may be used in financial planning practices.

Section B1

- **B1 - Method 1 – The ‘top-down’ client segmentation approach**
  - Step 1: Determine the client value
  - Step 2: Rate selected client value drivers
  - Step 3: Test client rating system
  - Step 4: Rate each client
  - Step 5: Define client segments
  - Step 6: Align to Client Relationship Management (CRM) system

Section B2

- **B2 - Method 2 – The Client Lifetime Value (CLV) segmentation approach**
  - Step 1: Data gathering
  - Step 2: Analysing the client segments
  - Step 3: Determine client categories
  - Step 4: Client segments determine focus
  - Step 5: Implementing a service and advice proposition aligned to the client segment

Section C provides a brief overview of best practices for implementation of the client segmentation strategy.

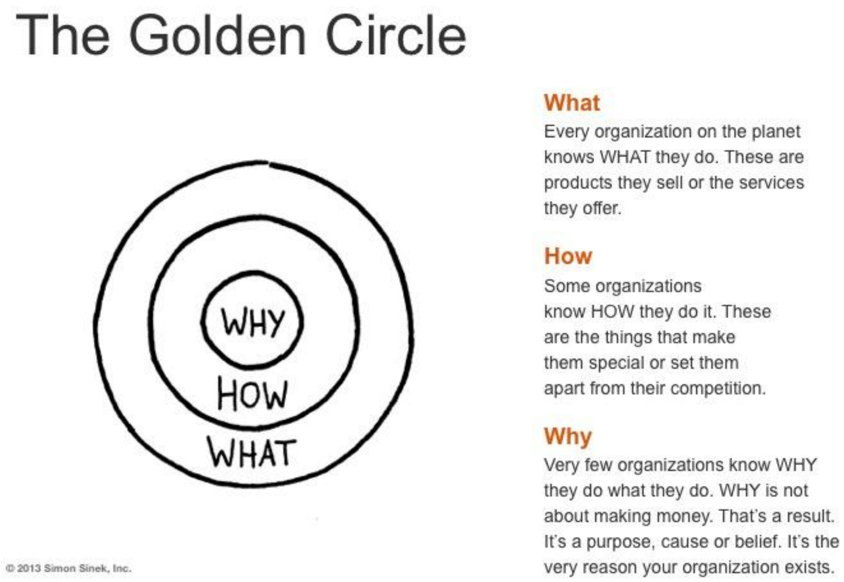
Section C

- **Section C - Implementation**
- C1 - Alignment of internal resources to the service agreement
- C2 - Differentiate client service levels
- C3 - Client feedback

A2. Define aspirations – The ‘why’ according to Simon Sinek’s Golden Circle

‘People don’t buy what you do; they buy why you do it.’ This is how Simon Sinek describes the inner circle of the ‘Golden Circle’. Sinek elaborates that this concept is best described by the values, the belief, or the purpose that inspires one to do what one chooses to do. This concept ties in to the business vision and mission statements as the focus is on the motivation of the business that drives the business long-term objectives.

Figure A1. **The Golden Circle**



(Sinek, 2013b)

By starting with a clear idea of 'why' or a vision of the desired future state of the business, business decisions, and activities are unified toward a common goal. This in turn means that all objectives, targets, and measures become aligned to the desired outcome. Hence, this would be the starting point before deciding on a client segmentation strategy. Understanding and defining 'why' will guide the 'how'.

A3. The 'ideal client'

Having a clear profile of the ideal client means that one can steer the value proposition to 'speak' to this client type. By understanding the characteristics of an 'ideal client', the advisor can focus on marketing efforts that will manage the practice growth and future revenue.

Relevant questions to define the 'ideal' client persona are:

- What kind of client will best fulfil the objective of the business vision?
- What are the financial needs of this client persona?
- How much income can one expect or does such a client bring into the practice?

- How many of these clients would one require to fulfil the vision?

A4. Creating the Value Proposition

The value proposition speaks to the 'how' of Sinek's Golden Circle. It is based on the information derived from the 'why' and the 'ideal client'. Product and service information is not explicit in the value proposition. This is because the objective of a client focused value proposition is to indicate the knowledge the advisor has of the client's situation or experience, and the specific ability the advisor has to manage the client's experience. In addition, the proposition should underscore what differentiates the advisor's service offer compared to other financial advisors.

Best practice on value proposition development notes that a persuasive client-focused statement should:

- Target the client experience or situation (not the service or product),
- Speak to the client benefits (excluding services and products),
- Be specific and unique (not generalised),
- Include quantitative and qualitative factors,
- Be demonstrable and believable,
- Be succinct and clear of the value that the client can expect.

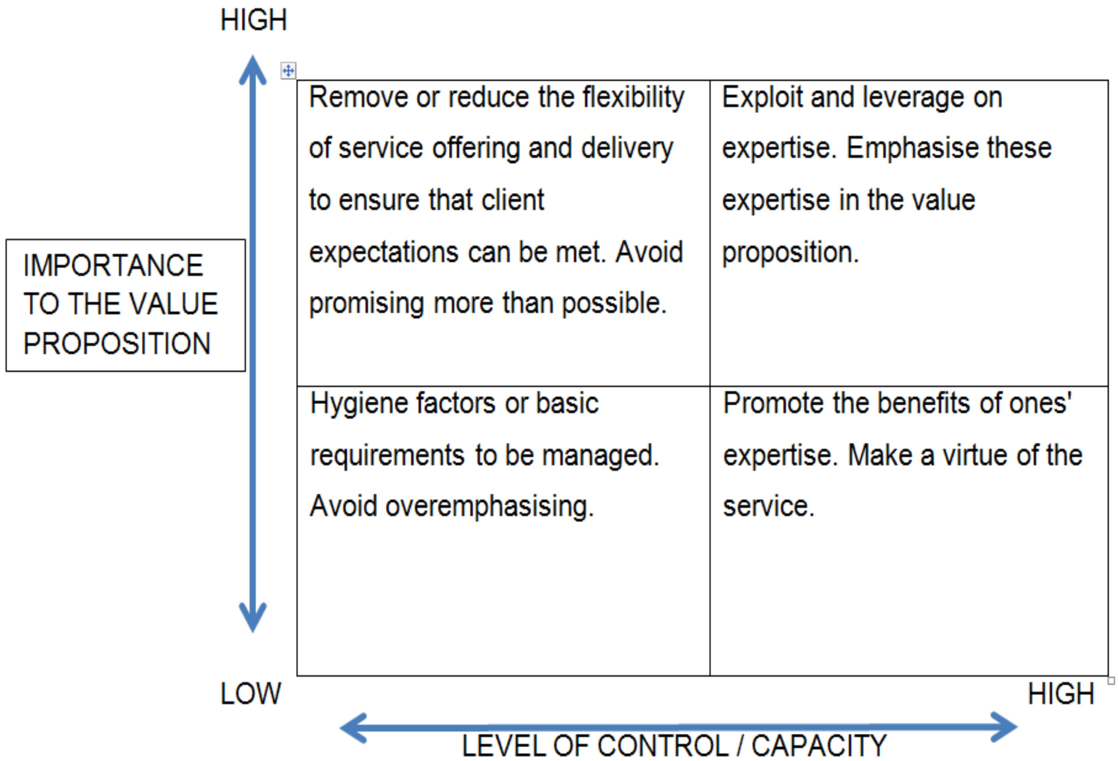
This is only possible if one understands the client to whom this value statement is proposed, as the intention is to lead with the client objective rather than a service or product; 'It's almost like taking the sales out of selling' (Terho, Haas, Eggert, & Ulaga, 2012). Having insight to the client needs, is one of the key drivers for both building the value proposition and for client segmentation (Littlechild, 2013a).

The value statement is most effective when it is reinforced by formalising and documenting the proposition in company presentation files and throughout every interaction (Littlechild, 2013b).

A5. Assess and align resources and capabilities

Consistently delivering on the client proposition drives client satisfaction and loyalty (Suhonen, 2013). This is possible by ensuring that the practice's capacity in terms of resources and capabilities are always sufficient to meet the value proposition and service agreements. Aside from a ‘SWOT’ Analysis (analysis of the strengths, weaknesses, opportunities, and threats), an internal resource assessment is required throughout the development of the client segmentation strategy. This is most relevant at the value proposition, development stage when resources or skills are required to deliver on the proposition offered to the client. In the figure below, an advisor can assess the key actions required against what is deliverable and ‘controlled’.

Figure A2. **Importance of the value proposition weighted against capacity of the practice**



(Adapted from Littlechild, 2013b)

Control and capacity is derived from internal resources. Optimising limited resources such as human capital, technology, time, and capabilities is essential in order to assess what is possible and deliverable in terms of the client promise or value proposition.

Section B - Client Segmentation

Delivering on the value proposition with the capabilities and resources available requires a systematic approach to understanding the varying needs of the different clients one services. This ensures that client services and resource allocation can be adjusted based on these differences and the levels of profitability each client group yields.

A client segmentation approach that is aligned to the value proposition recognises what is of value to both the advisors' practice and to the client. This means that if implemented with the correct service standard, the client will benefit from an enhanced experience, which would lead to greater long-term profitability and sustainability for the practice (Schwab, 2010).

What is important to note, is that differentiating between client segments requires an understanding of the various and different needs of these segments. By tailoring the service to each segment based on these different needs, client experience and client expectations per segment can be met more effectively (Cerulli, 2010; Schwab, 2010). Hence, client segmentation does not mean that services delivered will be sub-par to certain segments. Differentiated services can only be achieved by setting minimum standards and then providing a transparent service standard aligned to the needs of each segment (Calverly, 2010).

There are a number of ways to segment the client base since each practice and client portfolio is unique. The most common approach, called the 'traditional method', is a quantitative assessment based on the value of assets under management or revenue income. Since the focus is purely quantitative, the client needs are not pertinent in the assessment that does limit the value and depth a segmentation method can bring.

The textbox hereunder discusses the advantages and disadvantages of this approach. Two alternate methods, the 'top-down' approach, and the 'Client Lifetime Value' or 'Quartile' approach, are described below. These methods both include quantitative and qualitative criteria and may be amended to fit the value proposition for the practice in question.

Table A1. **The Pros and Cons of the Traditional Method**

The traditional method of classifying clients according to assets under management and the revenue generation is the easiest method to segment clients.

The upside

- The traditional method is the simplest form of identifying value in terms of revenue income from client groups and requires less time and effort than more qualitative approaches.
- It provides a broad overlay of value when used to complement additional segmentation approaches.
- It is easy to adjust and update whilst one can determine client asset value and revenue from reports at any given time.

The downside

- The traditional approach is often considered too simplistic. According to Yankelovich and Meer (2006), if products sold are merely functional then brand loyalty, price sensitivity, and such 'garden variety factors' are important. However, if the purchase is based on life-altering choices, such as those triggered by holistic financial planning, then inquiry into the clients' 'deeply held beliefs' are more relevant (Yankelovich & Meer, 2006).
- Future potential profitability or lifecycle value is overlooked if a blanket approach is used. Cross-selling opportunities may be missed by not offering customers the relevant solutions and products based on their situation.
- Clients, who may appear seemingly similar from a grouping based on AUM, may actually have big disparities in terms of their market knowledge, communication preferences, risk profile, or future requirements resulting in a service that lacks a personal touch.
- There is no alignment between the complexity of the services and products with the size of assets under management; hence, pigeonholing clients based on the volume of AUM is not the ideal segmentation approach (Berger, 2011).

B1. Method 1 – The 'top-down' client segmentation approach

This is an ideal method if one knows the client segment to focus on, based on the service offering and one's personal value proposition. By understanding the characteristics of one's service, it is easier to identify client groups that match the desired or 'ideal client' profile.

Step 1: Determine the client value

In this step, the starting point is to break down the 'ideal client' profile into the components that add value or are desirable to the practice.

Then identify what elements (both qualitative and quantitative dimensions) of the client relationships drive profitability. Examples of these profitability drivers are listed in the table A2 below.

Table A2. **Client Segmentation Drivers (Adapted from Cerulli, 2010)**

- Assets under management
- Total assets (including assets externally managed, property portfolios etc.)
- Level of investable financial assets
- Relationship profitability based on income earned over the last year
- Referral potential or value based on referrals provided over the last year
- Future growth potential based on client income, career and education status
- Client lifecycle stage
- Technical or special advice needs
- Time budget to service client
- Ease of working relationship or personality fit
- Centre of influence
- Client investment strategy or risk appetite

Research suggests that one should use a maximum of four to six elements and only focus on the core elements that drive value for the practice (Littlechild, 2013b). If too many drivers are chosen, then the rating system may become too diluted to be effective. At the same time, each driver or element chosen should have a defined meaning to the practice, and support the overall value proposition and the practices' long-term goals.

Step 2: Rate selected client value drivers

The segmentation drivers identified in Step 1 are the value elements identified as core to the practice. The selection of core drivers and the rating criteria in Step 2 is likely to be different for each practice, as the selection should ideally reflect the value proposition of the practice.

Each element needs to be rated according to its profitability and value potential. Six drivers were chosen as listed in Table A4 below. It is advisable to limit the number of drivers to five or six in order to ensure segmentation focus and effectiveness (Cerulli, 2010).

***Table A3*. Rating the client segmentation drivers**

Core Drivers	Rating	Range
Assets under management	5	R7 500 000 to R10 000 000 or more
	4	R5 000 000 to R7 500 000
	3	R3 000 000 to R5 000 000
	2	R1 500 000 to R3 000 000
	1	Less than R1 500 000
Relationship profitability based on income earned over the last year	5	R70 000/annum or more
	4	R50 000 to R70 000/annum

	3	R30 000 to R50 000/annum
	2	R15 000 to R30 000/annum
	1	R5 000 to R15 000/annum
	0	R0 to R5 000/annum
Referral potential or value based on referrals provided over the last year	5	3 or more genuine referrals in 12 months
	3	1 to 2 genuine referrals in 12 months
	0	No referrals
Future growth potential based on client income, career, and education status	5	Real and significant potential
	3	Real potential
	0	Little scope for more potential
Ease of working relationship or personality fit	2	Great fit
	0	Good working relationship
	-2	Difficult client
Time allocation	3	Time effectively spent (minimal time spent)
	0	Time aligned to service provided
	-3	Time consuming

Step 3: Test Client Rating System

Prior to rating each client according to the selection in Step 2, a test run with 10 to 15 clients is recommended to test the relevance of the drivers and rating chosen. Table A5 is an example of a table that may be used.

The selection of clients should vary in priority to 'test' the logic and applicability of the drivers. If the relative ranking is not logical then amend the rating criteria to ensure relevance with the actual client relationship.

Table A4. **Testing the rating system (Adapted from Hartford, 2010)**

Client	**AUM**	**Revenue**	**Referrals**	**Potential**	**Ease of Business**	**Time to Service**	**Total Score**
J. Bond	3	4	0	5	2	3	**17**
J. Dean	5	1	3	4	2	-3	**12**

Step 4: Rate each client

Be aware that this is a process that will take time, hence it is recommended that time is allocated to review each client and consider the rating fit. The process itself, though time-consuming, will provide one with a deeper understanding of the client profile and resource allocation in the practice.

Step 5: Define client segments

Depending on the total scores calculated in Step 4, a scoring range should be established in order to segment clients. Clients with a score of between 20 and 30 are ‘A clients’ for example, using the rating criteria in Step 2. The range would be different for each advisor’s practice.

‘A’ clients would be most aligned to the ideal client and recognised as the drivers of the business. In growing or new financial planning practices, where the segmentation method chosen mirrors the practice value proposition, the ‘A clients’ are likely to be few in numbers.

Step 6: Align to Client Relationship Management (CRM) system

In order to identify and streamline the service plan for each segment, the segments identified should be updated on the practice CRM system. This will allow for filtering, maintenance, and monitoring of the segments and of the rating system.

Existing client rating should be updated regularly or during the annual review meeting. New clients should be segmented on the information available at the time even if this means that a baseline rating is used initially.

B2. Method 2 – The Client Lifetime Value (CLTV) segmentation approach

Client Lifetime Value (CLTV) measures the value of a client over time. CLTV is described as the total of the present values of calculated future cash flows (less expenses or costs) of a client. Client advocacy, referrals are some of the qualitative aspects that add value to this concept. On the servicing cost side, negative advocacy, discounts in fees, and extra service costs are some factors that eat into revenue (Ogden, 2009; Vanguard, 2014).

Customer Loyalty Value refers to the anticipated future revenue from the client. It is a measurement of the robustness of the relationship and hence, an indication of the reliability of future income. The customer loyalty value (CLV) is the CLTV, noted earlier, weighted to the client loyalty rate.

A practice that is cognisant of the value of CLV and builds deeper relationships with clients in order to enhance the client experience and loyalty is in a better position to build a business with dependable, persistent ongoing revenues that will result in a business with realisable value.

Client segmentation based on CLV requires an understanding of how value is derived or eroded. Hence, it is necessary to focus on one value as a metric, such as client revenue in order to assess which segment to target.

Step 1: Data gathering

Data indicating client value in terms of revenue can be accessed from the CRM system or commission records. Relevant data here include current ongoing fees that a client contributes to the practice, the percentage of this from assets under management, and persistency in terms of recurring contributions.

One also requires data to calculate the client lifetime value and client loyalty value according to the formulas:

- CLTV is total NPV (Net Present Value) of expected future income less expenses or costs
- CLV is Loyalty rate × Lifetime Value

This information will allow for an analysis detailing the income earned by the practice, the source of this income, and the loyalty value of each segment. The common rule known by financial advisors, i.e. 'the 80/20 percent rule' should be evident in this analysis. The phrase 80/20 rule refers to the small 20% of clients that drive the highest revenue in proportion to the balance of clients

If the outcome of the exercise suggests that the practice is dependent on a handful of clients, it would indicate that resources are being spent on clients that yield little value or revenue to the practice.

Table A5. **Quartile Method Segmentation**

	Revenue	**1st Quartile**	**2nd Quartile**	**3rd Quartile**	**4th Quartile**
		25% of top revenue	25% of top half of revenue	Third 25% of revenue	Bottom 25% of revenue
Clients	Number of clients in each quarter:				
	Percentage of the total client portfolio:				
Client value	Determine lifetime value for clients identified above (CLTV is total NPV of expected future income less expenses):				
	Determine customer loyalty value for each quarter (CLV is Loyalty rate × Lifetime Value):				
Asset value	Greatest value				
	Average value				
	Lowest value				

Step 2: Analysing the client segments

The previous step provided a guide to the revenue in terms of the client lifetime value and the client loyalty value for each segment. The next step is to determine the characteristics of these segments in order to ascertain what drives the client segment. This is relevant, as it will provide insight to what the client need is and the service with related delivery costs required meeting these needs. An example of the analysis of characteristics and opportunities found is provided below.

Table A6. **Analysing client characteristics (Adapted from Vanguard, 2010)**

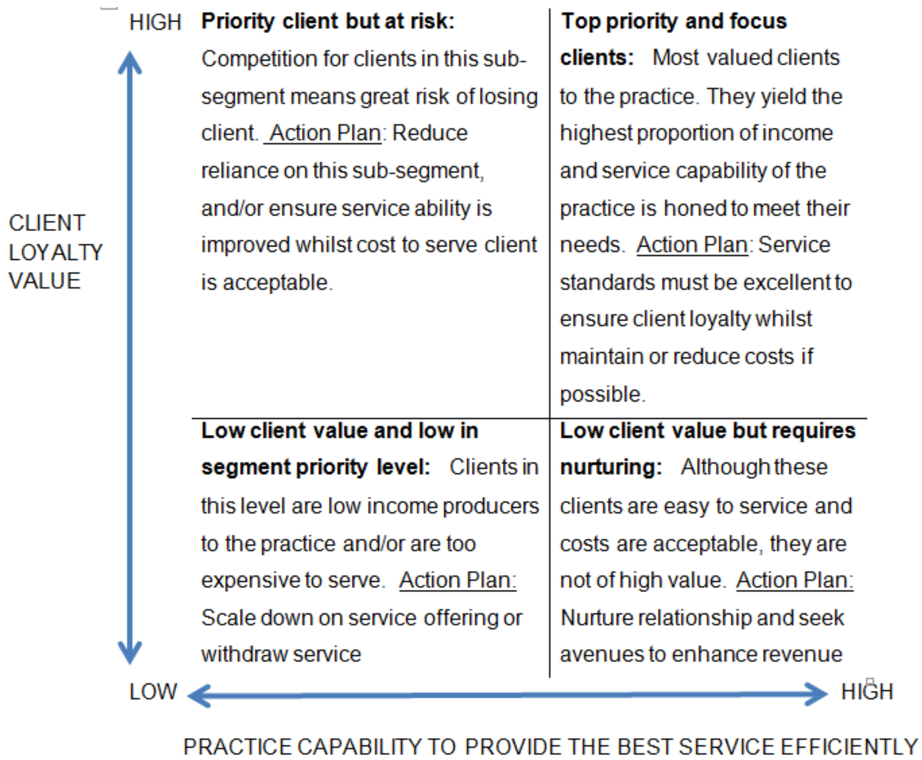
Demographics
Consider demographic profile for segment: Example: Find commonalities in age, sex, occupation, location
Find sub segments to allocate client above to: Example: Pre-retirees, wealthy retired clients, accumulating younger generation
Topical profile for these sub segments: Example: Personal interests, hobbies, income/expenditure behaviour, investor type
Client behaviour
• Determine the type of service/product each of the aforementioned sub-segment usually require • Consider how the sub-segments generally interact with the practice • Describe servicing cost (low, average, high) • Percentage of total staff time required to service client • Consider if there are any specific demands created by the sub-segment on the practice • Consider specific risks to the practice, if any, created by the sub-segment • Rate how the sub-segments special needs are met using a criteria between –5 and 5
Opportunities
• Consider growth opportunity of sub-segment (growing fast or declining, etc.) • Revenue potential from client type (Likely decline or increase over the long-term) • Likely future competition in the sub-segment (threats) • Rate the ability of the practice to enhance proposition to each of the sub-segments using a criteria between 0 and 10

The qualitative questions in the example above is meant to gain a better understanding of the different sub-segments in order to determine the value each segment contributes to the practice. The analysis should provide clarity in terms of which clients are being over- or under-served compared to the client value to the business.

Step 3: Determine client categories

The findings in the previous step will provide direction when assessing the capability of the practice to provide the best service (at the appropriate cost) against the client loyalty value. Plotting these findings on a matrix, such as the one below in Figure A3, is the next step.

***Figure A3*. Practice capability vs. client loyalty value**



Step 4: Client segments determine focus

Table A7. **Segment focus (Adapted from Standard Life, 2007)**

Priority client but at risk: • Consider what the client feedback is regarding current service. • Assess why this segment is difficult to serve and if an improved service is required (compared to fees received.) • Determine impact on practice if client is lost to a competitor. • Assess if clients' expectations can be realigned to the fee income received.	**Top priority and focus clients:** • Ensure that everyone in the practice understands this client's importance to the practice. • Consider how the client experience can be maintained and if possible enhanced. • Consider how the client can be made aware of the varied services available from the practice. • Determine if servicing costs can be reduced without reducing the client experience. • Assess how the practice can attract this type of client. • Determine how to transform this client type to advocates of the practice.
Low client value and low in segment priority level: • Confirm if these clients add no or too little financial value to the practice. • Determine if there is a contracted time to service the client. • Assess if the client is able and willing to pay for a menu of service or a minimal retention fee. • Consider if there is any other value add from the client in terms of referrals, centre of influence, etc. • Assess impact if services are withdrawn	**Low client value but requires nurturing:** • Assess if the current services offered is possible at a lower cost and if services may be increases without additional cost. • Consider if and how greater value can be derived from the relationship (additional services, cross-selling opportunities, etc.) • Determine if client is a potential advocate or referral source.

or if client is referred elsewhere.	

Step 5: Implementing a service and advice proposition aligned to the client segment

The aforementioned steps allow an advisor to define the type of client for each segment. This information provides direction in terms of the advice, product, and service agreement required to manage the expectations of each segment in the most efficient and profitable manner for the practice.

In this step, the advisor should consider the client experience in each segment would receive. This entails reviewing who would receive certain types of services, how much will be charged, if said services will be on a proactive or reactive basis, the regularity of the services, and the special experience or value added services to 'A type' segment clients.

SECTION C

C1. Alignment of internal resources to the service agreement

The client service agreement should align to the practice resource and capabilities. Hence, the service agreement may need to be reworked from time-to-time as the client base size and client need changes to ensure that the internal resources available can effectively deliver on the value proposition.

Resources include human capital, technology, specialised skills, or support and time. Of these, time is the least flexible resource, especially in practices where the advisor is the sole driver of the primary client relationship. Quantifying the time, as the advisor and support team have to service clients, is important when one structures the client service agreement.

An example of how time affects and restricts service per segment is outlined below.

Table A8. **Example of time resource allocation**

Assuming an advisor works 8 hours/day in a 5-day week over a 44 week period for the year, the total annual work hours available is 1 760. ($8 \times 5 \times 44 = 1\ 760$) The reality though is that an advisor spends only half this time in direct client activities, meaning that 880 hours a year $\left(\frac{1\ 760}{2}\right)$ is available to service clients. What this means in terms of time spent with each segment: • If the advisor has 50 'A clients', then the advisor can allocate 18 hours $\left(\frac{880}{50}\right)$ activities related to servicing every 'A client'. • If there are 200 clients, then the advisor can only allocate about 4 hours $\left(\frac{800}{200} = 4{,}4\right)$ to each client per year.

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Therefore it is evident that the time demanded of the advisor and support staff is an important factor when reviewing the client segmentation and devising an actionable service structure. Outsource, automate, and delegate activities as much as possible to ensure efficiency with time restrictions. The exception to this is the client relationship and the value proposition.

Outsourcing activities include portfolio management, account rebalancing, and CRM systems to activities. Leveraging on the available technology does not only free time but will ensure more effective communication and automation of processes.

By leveraging resources available, the advisor is able to operationalise the financial planning process itself. This is achieved in the following ways:

- Transitioning from an asset management offering to an integrated financial planning service will allow the advisor to interact at a deeper level with clients. This will require the use of tools and reporting systems that offer a consistent method of tracking client progress in relation to their plans developed collaboratively with the advisor and the clients' personal goals.
- Ensure that workflows are implemented in the office and in the financial planning process in order to enhance the client experience and improve efficiency.
- Making use of a para-planner or delegate time consuming components of the planning process to an in-house junior advisor to ensure that more time is available for client-facing activities.

These action items highlight the importance of understanding the time utilisation and capacity of support staff. Client segmentation assists in ensuring that priority and time allocation is aligned to activities and resource allocation in the most effective manner. This is achieved by differentiating service levels.

C2. Differentiate client service levels

A common concern amongst advisors is that differentiated service levels will translate to an unequal service offering. It is worth considering that each client's contribution to the practice differs and is not equal. By differentiating the service offering to match this contribution, the advisor can provide a service that is fair and transparent to each client. A base-line standard would always be in place to remain consistent with the value proposition; however, some clients will receive more value in service according their own contribution to the practice.

To devise a service agreement with each segment, a range of service offering should be drafted as in Table A9. This range should also account for the resource requirements per activity. Table A9 below accounts for time; however, other resource demands such as human capital, skills, office space, etc. should be taken into account.

***Table A9.* Example of Service Standard Planner**

	Frequency		
Activity	**A client**	**B client**	**C client**
Standard annual meetings	4	2	1
Phone calls	8	4	1
Financial Plan	2	2	2
Wealth Planning with Goal setting	6	4	0
Total time spent (per annum)	**20 hours**	**12 hours**	**4 hours**

Research studies indicate that a formal communication regarding the level and menu of services available is tied to the client's perceived value (Adviser Impact, 2013). For clients, an explicit service agreement ensures clarity in terms of the service offering and the price or fees applicable, if they are allowed to select from a menu of services.

Documenting the service level agreement at an internal level sets staff expectations and clarifies roles. Attached is an example of the internal service level agreements for ‘A’, ‘B’ client and ‘C’ clients in Tables A10 below. The client service, level agreement should include the following;

- Frequency and scope of the portfolio of financial/wealth plan
- The range of services available
- Team roles, profiles, and contact details
- Service standards
- Transparent pricing structures
- Details of profession or continuing education commitments
- The possible use of client feedback
- Documented client expectations
- A process guideline is useful, as this will highlight the activity in the planning process indicating time and value for each component.

A well-defined service standard should include the pricing of services and fees. Regulatory changes have placed the financial planning industry at the crossroads with respect to a shift in the direction of fees. In anticipation of these changes, consider the following measures:

- Leave fees unchanged for now, but review each component of the service offering to consider if fees may be divided for the various services. By understanding the components of the service, one will be in a position to justify a higher fee for areas of expertise in the future.
- Differentiate between services. A differentiated service means that one can identify how each service can be charged and offer more flexibility should one wish to charge a single fee or delineate specific fees.
- Review the current business model to ensure that the value proposition and pricing are aligned. This needs to be administered consistently and the value communicated to the client.
- Ensure fees and pricing are simplified and transparent so that clients understand how the advisor is remunerated and the client knows the value provided or service they pay for.

Table A10. **Example of service offering per client group**

Client Segment	**Number of clients**	**Time allocation**	**Investment Product Proposition**	**Advisory/Service Proposition**
A	3	25 Hours	Bespoke offering including; Share portfolios, Offshore Investment products, Structured products, Modelled strategy portfolios	Bespoke service offering including; Access to executive management, Full service and financial planning support team (Para-planners, portfolio managers, investment managers, etc.), 6 month reviews, regular value statements and fund alerts, online access to portfolio, newsletters, email alerts, investment seminars, wine-making experiences, wellness and golf days etc.
B	50	5 - 7 Hours	Share portfolios, Modelled strategy portfolios	Comprehensive Financial Planning including; Full service and financial planning support team (Para-planners, portfolio managers, investment managers, etc.), annual reviews, regular value statements and fund alerts, online investment

				details access, newsletters, email alerts, investment seminars.
C (Transactional Clients)	20	Based on menu of services	Modelled strategy portfolio, direct unit trusts	General Reactive: Basic or transactional advice and services (usually agreed on from the menu of services) but including value statement, annual call/review meeting, online access to portfolio and newsletters

(Adapted from Standard Life, 2007)

C3. Client Feedback

Measuring the success of the client segmentation method used can be assessed quantitatively by analysing the efficiency of resource allocation per client segment. Profitability measures provide an easy yardstick to determine the business value derived from implementing the segmentation method chosen.

Qualitative measures involve requesting feedback from clients to assess the clients' experience of services delivered. Positive client experiences leads to increased client loyalty, retention, higher fees, and client referrals. Since the client, 'is the practice', consistent and positive client perception of the service will result in improved and sustainable long-term value for the practice. It is necessary to understand how the client perceives the service and relationship as this will provide insight as to how effectively the practice is delivering on the value proposition. An advisor needs to be cognisant of which components of the relationship the client values most or least in order to deliver the service required for the best impact.

Therefore, client feedback is an important factor throughout the process. Feedback will inform the components of the value proposition, as well as review the efficacy of a client segmentation strategy that has been implemented.

Feedback and reviews should be considered in a systematic manner, starting from an understanding of what is to be measured and why. Based on these requirements, client feedback may be obtained via surveys, focus groups, or one-on-one interviews, etc.

Alternatively, one may track client experience using various satisfaction metrics, including referrals, retention rate values, and profitability or productivity metrics specific to each client group.

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