

ADVICE TO ADVISORS: PART I

Baby Boomers – Demanding the Next Generation of Advice

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How Boomers View and Manage Wealth

It's ironic that as we become comfortable with the new date designation — a new Century, a new Millennium — we continue to look at our industry and our clients through 20th century lenses.

During the last two decades, financial advisors tracked what appeared to be the “same” client, the same financial consumer — but with changing needs. And we responded in kind. The 80's were an age of investment products and we were focused on transactions. By the 90's, many of us increased our scope to portfolio management in order to respond to our client's demand for more independent investment advice. There was a belief that, “If we built it, they would come.” They did come. And life was good. But we all know what happened next — the bubble burst — the economy contracted, corporate scandals surfaced and investor trust in almost all industry institutions and firms plummeted.

As our economy and the investment environment have begun to improve, one might observe that most of the major financial players are now just trying to put the same pieces back together. What the industry has missed is a major shift in our wealth “center of gravity.” Advisors can no longer simply try to adjust to differing needs of the same clients, but will be required to transform their total business model. They must not just meet the financial wants and needs of a new affluent client profile, but must be prepared to fulfill a greater demand for holistic Life and Wealth Advice!

Just take a look at the evolution of the industry:

	1988	1994	2003+
Evolution of the Industry:	Age of Investment Products	Age of Portfolio Management	Age of Holistic Life/Wealth Advice
Primary Offering:	Investment products	Investment portfolios/ fragmented financial planning	Life/wealth advice
Customer Demands:	Investment advice	Independent objective investment advice	Consolidated objective life/wealth planning centered around family/self/community
Pricing:	Transaction-based	Fee based on AUM	Fee based on advice
Primary Target:	WWII Generation (born pre-1946)	WWII Generation (born pre-1946)	All Boomers (born 1946-1964)
Secondary Target:		Leading-Edge Boomers (born 1946-1964)	WWII Generation (born pre-1946)

What's the driving force behind this transformation? The Affluent Baby Boomer!

The Boomer cohort, much more self-reliant and self-indulgent than past generations, has been a prominent force in our culture for five decades. Boomers are consistently dominating mainstream demographics:

- Over 40% of all millionaires, 36% of \$2 Million+ households and between 15-20% of all Penta-millionaires are Boomers.¹
- Boomers are getting wealthier every day — the number of wealthy Boomers will triple in the next 10 years as income, savings and investments increase. In addition, they may well inherit \$7 Trillion.²

If these statistics don't sound compelling enough for you to consider transforming your business model, consider this: history has shown that Boomers don't just populate existing lifestyles, they transform them. Food, fashion, dating, divorce, music, the workplace — all underwent significant change to satisfy the demands of this generation.

As a result, other industries are creating or transforming themselves to provide the Boomer clients with a unique level of satisfaction.

- **NetJet** — redefining the travel experience for the 21st Century CEO and senior management. This company has defined a new genre of air travel that is designed to accommodate the busy lifestyle of today's executive-level Boomer.

¹ Spectrum Group, 2002

² Boston College: Social Welfare Research Institute, 2003

- **Panera and Starbucks** — featuring quick service, wholesome, nutritious food and a trendy atmosphere. It's obvious that a lot more than bread and coffee are being offered here! These two successful companies have created a client experience that keeps the Boomers, and their families, coming back for more.

As time goes on, the Boomers are inheriting the money the generation you have served is leaving behind. We can continue to focus our efforts on the WWII generation, but soon, we need to be sure that we are well positioned to service the Boomers. On which side of that line does the majority of your client base lie?

The WWII generation sought a product that would solve a problem. Their children, the Boomers, are already rejecting old strategies for meeting their wealth management needs, because their needs are strikingly different from those of their parents. They view wealth, not as an issue separate from everything else, but as a supporting part of the overall picture of their lives. In this manner, Boomers look at wealth differently than it has ever been viewed before. They are seeking an experience – an efficient and effective means of using their wealth to enhance (not complicate) their lives. They see wealth as a tool, not as an end in itself. As such, they want life and wealth management solutions, not just new products with good performance. Boomers desire wealth planning that is more holistic – taking into account not just investment options, but their life commitments and concerns – family, community, and health, as well as wealth. Are you prepared to transform your practice in order to service this new generation of needs?

Because the bottom line for the Boomers is clear: “It's all about me and my life — If you help me to clarify and gain control of the bigger picture of my life, you'll earn my gratitude, my loyalty and my business.” A Boomer demands of our industry:

- **Represent me**, be my advocate. Think about my life first and help me navigate and organize the multiple issues that my family and I face.
- Next, **educate me**. Get me involved and give me the tools I need to make good decisions.
- **Give me options** for today and tomorrow's life events. Play out some future scenarios and let me see some “what ifs.” I'm looking for seamless, end-to-end solutions — true planning integration — not just quick answers.
- Finally, and most importantly, I'll delegate **but I want control**.

Representation, education, options and control: these are what Boomers crave. Yet, the industry is not living up to the task and this is evident in research. Today's investors are not satisfied with the level of service they are receiving from their advisors. On average, Boomers see no differentiation in the financial services industry. They want independent and objective advice centered around their life, family and community aspirations, but can't seem find it.³ As many as 80% of wealthy Boomers have at least four financial providers and the average do-it-yourself wealthy investor is independently juggling thirteen financial relationships!⁴ Help Boomers solve this mystery and you'll discover the key to a winning client relationship.

³ Spectrum Group, 2003

⁴ Source: NFO World Group

OLD MODEL :
PRODUCT APPROACH



NEW MODEL :
AN INTEGRATED SYSTEM



Transform Your Business or Fail

Restaurant maven Norman Brinker recently said, “In the 21st Century, it won’t be enough to just *satisfy* customer needs, the restaurant industry will need to dazzle and delight customers.” While “dazzle and delight” may not translate well to our specific objectives, it follows that “business as usual”, just trying to satisfy clients, will not be enough. Today’s wealthy clients want an experience not unlike that which is delivered by the Mayo Clinic in Rochester, Minnesota. Founded by the Mayo brothers a hundred years ago, the clinic has three core values that are a part of all patient relationships: competence, caring and integrity. These values, along with the Boomers’ demand for representation, education, options and control as outlined earlier in this paper, define the service model Boomers crave. If we want to survive, our industry must begin to transform, to deliver against the same expectations.

Many advisors are providing financially driven advice, addressing only a portion of their clients’ needs. This may have been an acceptable model for the WWII generation, but Boomers are demanding more meaningful advice centered on each new event in their lives. The Boomers’ focus on life goals will demand that their Life/Wealth advisor be able to educate them and provide integrated alternatives across many different disciplines, including credit, insurance, philanthropy, estate planning, long-term care, tax management and investment management. The Boomer expects information and support in real-time, before major decisions can be made.

In an attempt to address this issue, many in the financial services industry are simply trying to put a new coat of paint on the old, product-oriented model — masking yesterday’s offerings in a new light with the hope that today’s new consumer will not know the difference. However, the old model will not satisfy the Boomer. A few innovative advisors have already recognized this and are patching together outside experts to assist them in fulfilling the needs of their top clients. However, integrating and coordinating an enormous amount of client data, as well as the activities of assorted independent experts, is complex and time consuming. It is rarely cost effective; plus, transformation requires a complete reengineering of all advisor processes.

The successful advisor will help clients consider their life and wealth goals together, within a new framework. If the advisor first focuses on the Boomers' life events, and then helps to plot the attainment of these goals on a needs-based timeline, the financial requirements to meet those goals will become self evident. But be advised, this approach requires more than just a strategy around financial management. Instead, the following fundamental changes to the client-advisor relationship must be implemented:

Fees defined by value: Boomers value holistic advice that allows for both control over the circumstances that surround their lives, and the time they deserve to enjoy them. It follows that fees should be charged for the holistic advice that they value rather than investment product implementation.

Event-driven advice: Client interaction needs to be based on scheduled and unscheduled life events rather than investment performance and calendar quarters.

Seamless support: The client experience begins with the advisor. But, in order to create the holistic experience your clients demand, you need a disciplined system for the identification, management and integration of a multidisciplinary team of independent experts.

We believe that profitability and firm value will be a direct result of each advisor's ability to implement these changes.

The Bottom Line: Advisors need to transform their business strategy to meet the needs of the Boomer generation - an attractive, yet radically different, market.

New generation of advisory services

This is the first in a series of explorations into the fundamental change that is occurring in how affluent Baby Boomers, born between the years 1946 to 1964, view and manages wealth. This paper provides an overview of how this new breed of investor is driving a transformation in wealth management. Future articles* in this series will explore:

1. Solutions and tools that recognize the importance of behavioral finance in how Boomers make investment decisions
2. An analysis of the structural weakness in today's provider model for meeting Boomer demands
3. A model for maximizing profitability in wealth management and delivering the ultimate experience to the Boomer market

*These studies are provided by SEI Distribution Corporation.