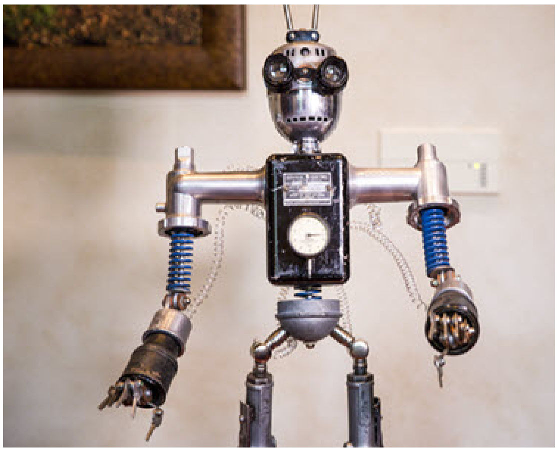
Do I Need a Robo Solution?

Aug 1, 2017 Raef Lee



We get the question fairly often from advisors. It makes sense for some advisors, and this post explores which advisors and why. Before I start let me clarify the question:

- We are not talking about a solution that the investor uses directly (e.g., wealthfront.com); we are talking about a solution that an advisor uses to service their clients.
- I'm focusing on advisors who already have an asset management service for their clients. And trying to determine if they need an additional robo solution for a specific client segment.

These are the questions to ask yourself when determining your need for a robo solution.

What client segment?

Some of your clients are a better fit for a robo solution. Here are a few of the more common ones.

- **Early clients that have not grown.** When starting a firm, most advisors' doors are wide open for business. By wide, I mean there are low minimums and a lot of service is provided. This strategy normally works, as these early clients' assets will grow as your firm grows. Sometimes the assets don't grow and you have a client who is now below your updated minimums, but with whom you have a long relationship.
- **Accommodation clients.** You have a great client who wants to help a friend. You want to accommodate your client and so you lower your minimum to welcome in their friend.
- **Clients that I'm betting on.** A new client with great potential, but currently does not have a large portfolio. Often they are highly-qualified professionals with a lot of school debt.
- **Multi-generational solution.** You are covering multiple generations of a family and you want to cover all of the generations, including those who do not have large accounts.
- **A new segment for my firm.** You've decided to broaden your client base and specifically focus on clients with less assets.
- **Regulatory reaction.** You've been following the changing regulations (DOL or other fiduciary regulations) and have decided to create a segment of your clients that you can service differently and still keep in compliance.

The common theme amongst these segments is that all have less wealth, and are under your typical minimums. Some advisors group these segments together and call them their "**emerging wealth**" segment. It's a good, optimistic name!

What service will I give this segment?

You already provide great service to your book of business, but the segments mentioned above need a different level of service. And for profitability, that level should be lower, but still valuable to the client. So what are the key services that an emerging wealth segment requires?

- A once-a-year financial review
- A core set of services such as retirement planning or a straight forward investment review
- Access to a junior advisor

But – and it is a big but – some of these segments do not need a reduced service, rather a specialized service. For instance the high potential segment, they need help with their loans. And any segment that includes a younger demographic will have different financial planning needs as they move through life events.

The bigger question here is, what fee to charge for this service and how? If the service is reduced, rather than specialized, it seems fair that you not charge the full advice fee. We have seen fees of between 25BP and 50BP for this type of service. You may want to consider a retainer fee model for this service; you're not charging a basis point fee on an account with no assets in it, and the investor is able to budget for a set amount of money leaving their account each month.

For an advisor to set this up for a specific client segment is a fair bit of work.

Do I need a robo solution? CLICK TO TWEET

Do I have the discipline to keep to this service level?

Like most advisors who pride themselves on their service, you can most likely detail A, B, C and D clients, but explaining the different service levels is more difficult because they're remarkably similar. If you've spent your career providing great, same-level service for all clients. It will be a challenge to change, especially a reduction for a specific segment

How do I show my value?

Using a robo platform means the investor is able to use the technology with an automated asset management solution. In this case, you can establish your value with planning. Some advisors focused on the emerging wealth segment provide only financial planning services. They then accommodate clients who have assets with a robo platform for asset management.

Am I big enough?

If you are an advisor who is starting out, it doesn't make sense to segment your client base and provide one service for your larger clients and one for your smaller clients. It's a bit too onerous for a small advisor to provide two sets of services with two platforms. As a rule of thumb, a firm needs assets of $250M or above to consider this option. In addition, the most efficient and profitable way to service these clients is via a junior advisor in your firm. Of course, this means that the firm must have enough business to support this role.

How do I attract this segment?

It takes a focused, and typically technical, approach to drive new prospects to your site, it should be updated to attract the emerging wealth client. This is also a fair amount of work and cost. It was the cost of client acquisition that winnowed out the pure robos, which I describe in a previous post.

Do I need to rebrand for this segment?

One way to successfully break out your robo-offering is to rebrand for that type of client. This means two websites, two service offerings and as a result two different client bases. Someone who has done this successfully is Matt Cosgriff who rebranded an offering for young professionals called Lifewise. Matt is part of a parent company BerganKDV Wealth Management. We described his experience in a previous post.

How will this client grow with me?

Ideally you would have the client at the same custodian so that you do not have to repaper. You also need complementary fee structures so that as you move from one model to the next, the value is clear to the client. It seems like long term planning, as it may take years for your clients to need your next level of service, but it is worth trying to make the transition seamless.

Do you have your answer?

There is no doubt that for some advisors with an existing book of business, a robo option is a good solution. However having good answers to the questions above is essential before you implement.

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