The Central Question for Your Business

by Dan Richards, 11/14/17

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Almost 60 years ago, an article appeared in the Harvard Business Review that posed the most important question for any business – and a question that is essential for advisors to address today.

Research by Harvard Business School's Ted Levitt dug into the reasons that once-dominant industries like railroads, movie theaters and corner grocery stores had fallen on hard times. In 1960, his answer appeared in *Marketing Myopia,* among the most reprinted HBR articles ever. In that article Levitt raised the fundamental question that advisors need to ask themselves today: *"What business are you really in?"*

Operationally-focused or customer-focused

When he looked at historically successful industries that had fallen on tough times, Levitt concluded that the key problem was an internal operational focus rather than an external customer-driven mindset. Companies in failed industries concentrated on achieving incremental improvement in the things they were already doing – so in the case of railroads reducing delays due to mechanical malfunction, making ticket taking more efficient or generating cost savings by consolidating the companies that manufactured locomotives.

While those changes made train travel more pleasant for customers, the key impetus for these initiatives was to improve profitability while continuing to operate within the industry's comfort zone. In operating within an overall "business as usual" mindset, these changes failed to fundamentally address the broader issue of what customers wanted.

Here's Levitt's perspective on the railroad industry:

> The railroads did not stop growing because the need for passenger and freight transportation declined …. The railroads allowed (competitors) to take business away from them because they assumed themselves to be in the railroad business rather than the transportation business. The reason that they defined their business incorrectly was that they were railroad-oriented rather than transportation oriented; they were product oriented rather than customer oriented.

When you look at the topics that have preoccupied advisors over the past number of years, you see some parallels with railroads in the early 1900s. High on the list of issues for many advisors have been things like positioning businesses for succession planning and adjusting to a higher level of regulatory scrutiny while maintaining practice profitability.

While these are important issues, they are much more relevant to advisors than to clients.

Or take the shift from a transaction-driven business to a fee-based model, something that has typically framed to clients as aligning interests between advisors and clients. Beyond the goal of aligning interests, for many advisors this has also been driven by the prospect of creating more stable income streams, annuitizing revenue and increasing overall profits. At one conference I attended a few years back, an executive from a wirehouse firm said that the major impetus at his firm for the shift to fee-based was the experience that after a move to a fee based model, on average revenue as a percentage of assets more than doubled.

There is nothing wrong with advisors organizing their businesses to operate in a more profitable fashion. But when the bulk of your energy is on internal operational issues, you risk missing the broader issues that really matter to clients.

What business are you really in?

There are two central issues in defining the business you're in – what you do and who you do it for.

This article is part of a series on the necessary changes for your business to thrive in the period ahead. When it comes to the clients you work with, my article, Your #1 Imperative: Differentiate or Die, made the case for narrowing your client base to focus on a subset of clients that you can serve exceptionally well, becoming a safe choice and a "go-to" advisor as a result.

Once you decide who you work with, the next question is what you do for them.

There are three broad ways to position yourself:

First is the traditional positioning as an **investment advisor.** Here the focus of client conversations is client statements, the market outlook and the prospect for interest rates. Given those conversations, you then talk about opportunities in different asset classes and how to position portfolios and manage risk.

The best investment advisors expand the definition of their businesses beyond recommending investments into behavioral coaching, helping clients avoid the trap of allowing their emotions to get too high when things are going well and too low when they're going badly. Research by Vanguard suggests that of the 3% in net value that advisors can add to client returns, half of that comes from behavioral coaching.

Second is the broader positioning as a **financial advisor** that has become more and more prevalent. As a financial advisor you take a broader wealth management approach rooted in the client's financial plan – while you certainly talk about investments, your conversation touches on all aspects of clients' financial lives. In particular you'll talk about estate planning, something that this recent article on gaps in estate planning highlighted as a key issue. When you conduct annual reviews, you'll still talk about portfolio returns, but you do so in the context of the client's long term objectives.

Some advisors who call themselves "financial advisors" in fact operate as investment advisors. A simple test is to look at the content of your newsletters and the articles you share with clients. If 80% plus of the content relates Warren Buffett's opinion about the valuation of U.S. stocks or Nobel Prize winner Robert Shiller's views on Bitcoin, you may call yourself a financial advisor but in truth you're operating more like an investment advisor.

As with investment advisors, financial advisors will define their businesses more broadly or narrowly, depending on their mindset and comfort level. For example, some advisors define their mandate to

include helping affluent clients initiate conversations about their finances with adult children, for others this goes beyond their role.

For more on being a resource to clients in helping the next generation achieve financial success, these articles will be helpful:

How to Get the Attention of Wealthy Prospects talks about the research on the failure of prosperous *families to transition wealth to the next generation and discusses how advisors can help clients plan for a successful wealth transition.*

How Just-In-Time Advice Deepens Relationships outlines how advisors can deepen bonds by helping clients' teenaged and college age children and those in their 20s make informed financial decisions.

The #1 Hot-Button Topic for Wealthy Families outlines research among the children who received bequests on what they would have liked to have seen done differently.

Five Ways to Get Families to Talk About Finances lays out some ways that advisors can help clients have family conversations about finances.

Positioning yourself as a trusted advisor

Finally is the broadest position as a **trusted advisor**, in which advisors talk to clients about the issues that are the most important to them, going beyond narrow financial issues.

Being careful about the limit of your expertise, as a trusted advisor you help clients talk through their hot button concerns and point to resources that might be helpful, even if they don't relate to their finances. Why Top Performing Advisors are Exiting the Business made the case that for many affluent investors in their 60s, what worries them most falls into three big categories – their kids, their parents and their health and the health of their spouse. While you might be more comfortable focusing on financial issues, if you want to be viewed as a trusted advisor, these need to be part of your conversation.

As this article pointed out, that doesn't mean that you'll be an expert on Alzheimers, but it does mean that you'll be knowledgeable about new research on this disease and able to share resources with clients who have a parent or spouse who's been diagnosed with Alzheimers. And perhaps for your next client event you'll bring in a researcher from a local university to talk about what's happening in this area. (For more on the Alzheimers epidemic, read What Boomer Clients Fear Most.)

Nor does taking a broader approach to the advice you offer mean that you'll be an authority on how to deal with unmotivated kids in their 20s and 30s living in the basement. You will however be able to talk knowledgeably about this phenomenon and be able to share a video with a psychologist talking about what to do in this situation. And perhaps you'll be able to refer clients who are grappling with children drifting through life to a counsellor in your community who can help them work through their response to this problem.

A lot of being a trusted advisor relates to your mindset. Investing $15 to Create an Unshakeable Client Bond talked about one advisor who gave clients inexpensive upbeat books to mark key life events for them or their kids – on turning 50, 60 or 70 or when clients' children got married, bought their first home or were expecting their first child. And I've talked to a number of advisors give their fitter clients the book "Younger Next Year" as a retirement gift.

Enjoying a successful retirement is another obvious hot button for clients. Advisors who define their business broadly will be conversant with the growing body of research on the things that lead to a happy satisfying retirement. Those advisors will also share articles, books and videos with clients on this topic.

When it comes to issues like retirement, the problem isn't lack of information; it's drowning in it. Depending on what you read, there are one, three, seven (according to Suze Orman) or nine keys to a happy retirement. One way an advisor can add value is by sifting through the overwhelming volume of information to highlight what's most relevant for clients.

The #1 Key to A Happy Retirement

Three Keys to a Happy Retirement

Suze Orman's 7 Rules for Retirement Success

9 Keys to a Happy Retirement

And for those advisors looking to dig deeper, this report prepared by the consulting firm Age Wave for Merrill Lynch is worthwhile reading.

When it comes to defining the business you're in, there's no right or wrong answer. While my own view is that being a trusted advisor will be the high ground for many clients, depending on your orientation and the clients you serve, you can be successful as an excellent investment advisor or financial advisor. The key is to be explicit in thinking through your choice of the business you're in and then to be consistent in following through on that decision in how you structure your practice, how you communicate and what you offer clients.

Avoiding the "business as usual" trap

This is part of a series of articles on the necessary changes for advisors to thrive in the period ahead.

Why Top Performing Advisors are Exiting the Business made the overall case for fundamental change

Your #1 Imperative: Differentiate or Die talked about the need to focus your client base.

Three Steps to Dramatically Happier Clients: Lessons from the Airline Industry argued for a fundamentally different mindset in how you treat your very best clients.

Vanguard's Lesson on Great Client Communications outlined how some of today's most successful investment firms are making videoconferencing technology a central part of their client communication strategy.