

RETHINKING ADVISOR MARKETING TO GENERATE MORE SCALABLE GROWTH

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MICHAEL E. KITCES

MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL

Head of Planning Strategy. Buckingham Wealth Partners

Chief Financial Planning Nerd. Kitces.com

Co-Founder. XY Planning Network, AdvicePay,

fpPathfinder, New Planner Recruiting



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ABOUT OUR RESEARCH

- *2020 Kitces Research Study on
"How Financial Advisors Actually Market Their Services"*
 - *Almost 800 advisors completed the full-length questionnaire*
 - *Average age: 48*
 - *62% held CFP certification*
 - *61% were RIA, 39% broker-dealer or insurance*
 - *Financial planning-inclined & relationship-oriented*

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THE ECONOMICS OF ADVISOR MARKETING

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WHAT WOULD YOU PAY?

- *Gary and Jennifer have just sold their nursery & landscaping business for \$1M*
- *They're looking for a holistic financial advisor to guide them in the next stage of life*
- *Assuming Gary and Jennifer will pay ~\$10,000/year in fees and work with you for the long term...*

How much would you spend in Marketing & Sales \$\$\$ to get them as clients?



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QUESTION:
WHAT WOULD YOU
SPEND?

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How much would you spend on marketing & sales to get Gary & Jennifer as clients?

① Start presenting to display the poll results on this slide.

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WHAT IS A CLIENT WORTH?

\$10,000/year in advisory fees

Client retention rate: 95%

Average client tenure: $1 / 5\% = 20$ years

Lifetime client revenue: $20 \times \$10,000 = \$200,000$

Annual profit margin: 30%

Lifetime client value: $30\% \times \$200,000 = \$60,000$

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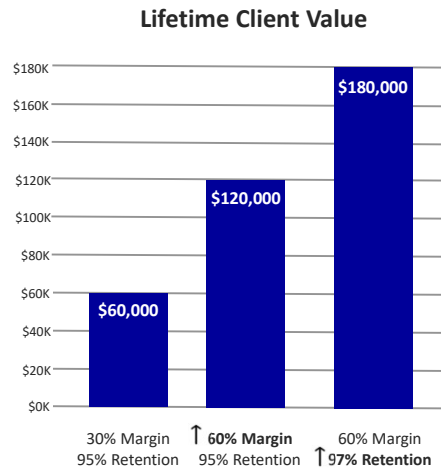
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WHAT IS A CLIENT WORTH?

- **Lifetime client value-**
- **At 30% margins:**
 - $30\% \times \$200,000 = \$60,000$
- **At 60% margins:**
 - $60\% \times \$200,000 = \$120,000$
- **At 97% retention:**
 - $60\% \times \$300,000 = \$180,000$



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WHAT IS A CLIENT WORTH?

*If the Lifetime Client Value = \$60,000
30% margins, 95% retention rate*



*What is a **reasonable** Client Acquisition Cost = ???*



MARKETING FORMULA FOR SUCCESS

THE ESSENTIAL FORMULA FOR ADVISORY FIRM BUSINESS GROWTH

LCV

>

CAC

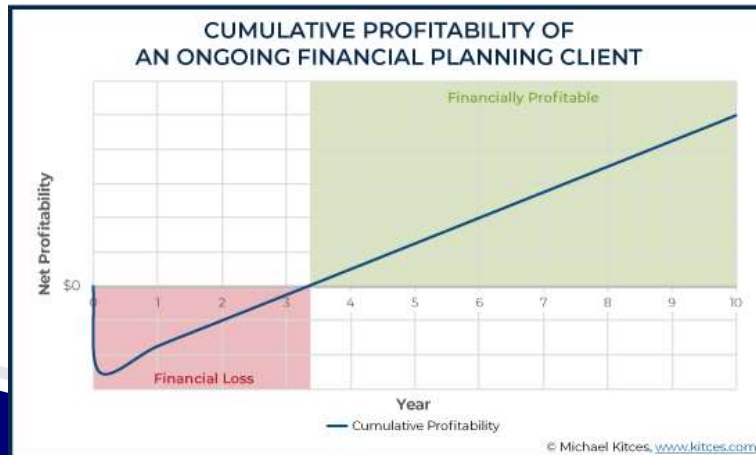
Lifetime
Client Value

Client
Acquisition Cost

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THE J-CURVE OF PROFITABILITY

- What if you spent “just” the first year’s revenue?



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YOU CAN GROW BROKE!

- In the long run, it pays *very well* to spend \$10,000 to get a \$1M client
 - In the short-term, you’ll go bankrupt
 - Because it takes 3+ years to break even!?
- Still, every \$10,000 spend for a \$1M client produces a 6X return!
 - Or a ~30% IRR over 20 years!

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ADVISOR MARKETING SPEND

- The average advisory firm spends 2% to 3% of revenue on marketing
- Why?
 - 1) We don't recognize the economics of LCV (and underspend)
 - 2) We're marketing inefficient (which amplifies growing broke)
 - 3) We're resource-constrained (no scalable marketing systems)


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WHAT IS YOUR
CLIENT ACQUISITION
COST?

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QUESTION:
WHAT % OF YOUR
REVENUE DO YOU
SPEND ON
MARKETING?

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**What Percentage Of Your
Revenue Do You Spend On
Marketing**

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QUESTION:
HOW MANY
HOURS/MONTH DO
YOU SPEND ON
MARKETING?

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How many hours/month do you spend on marketing activities?

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WHAT IS YOUR CAC?

- *New advisor*
 - \$8M of AUM at 1% = \$80,000 revenue
 - 2/3rds of hours on clients + prospects = \$60/hour
- *Marketing spend: 2% of revenue x \$120,000 = \$2,400*
- **Marketing hours: 16 hours/week = 800 hours/year**
- **Total Marketing Spend: 800 hours x \$60/hour + \$2,400 = \$50,400**
- *Total marketing cost as a % of revenue: \$50,400 / \$80,000 = 63%!*

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WHAT IS YOUR CAC?

- *Total Marketing Spend: \$50,400*
- *# of new clients last year: 24*
- *Client Acquisition Cost: \$50,400 / 24 = \$2,100/client*
 - *Lifetime client value of \$200,000 AUM =
\$2,000/yr x 20 yrs x 30% margins = \$12,000 ☺*
 - *First-year profitability: **-\$100** ☹*

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WHAT IS YOUR CAC?

- *Experienced Advisor*
 - \$50M of AUM at 1% = \$500,000 revenue
 - 2/3rds of hours on clients + prospects = \$375/hour
- *Marketing spend: 2% of revenue x \$500,000 = \$10,000*
- ***Marketing hours: 4 hours/week = 200 hours/year***
- ***Total Marketing Spend: 200 hours x \$375/hour + \$10,000 = \$85,000***
- *Total marketing cost as a % of revenue: \$85,000 / \$500,000 = 17%*

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WHAT IS YOUR CAC?

- *Total Marketing Spend: \$85,000*
- *# of new clients last year: 12*
- *Client Acquisition Cost: \$85,000 / 12 = \$7,083/client*
 - *Lifetime client value of \$500,000 AUM =*
\$5,000/yr x 20 yrs x 30% margins = \$30,000 ☺
 - *First-year profitability: -\$2,083 ☹*

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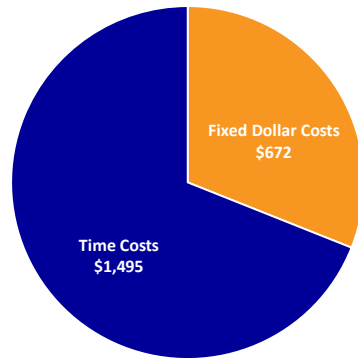


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WHAT IS YOUR CAC?

AGGREGATE CLIENT ACQUISITION COST ACROSS ALL ADVISORS AND STRATEGIES

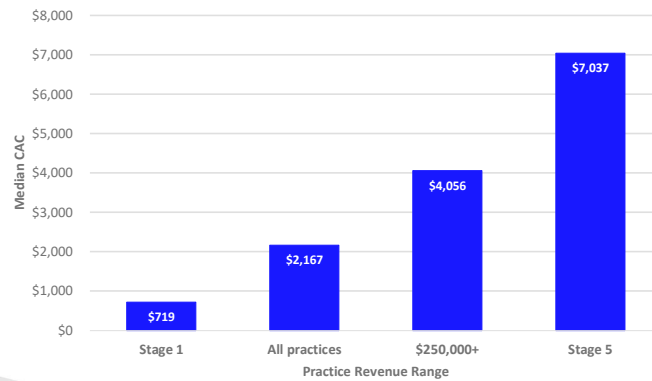


Fixed Dollar Costs	\$672
Time Costs	\$1,495
Client Acquisition Cost	\$2,167

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WHAT IS YOUR CAC?

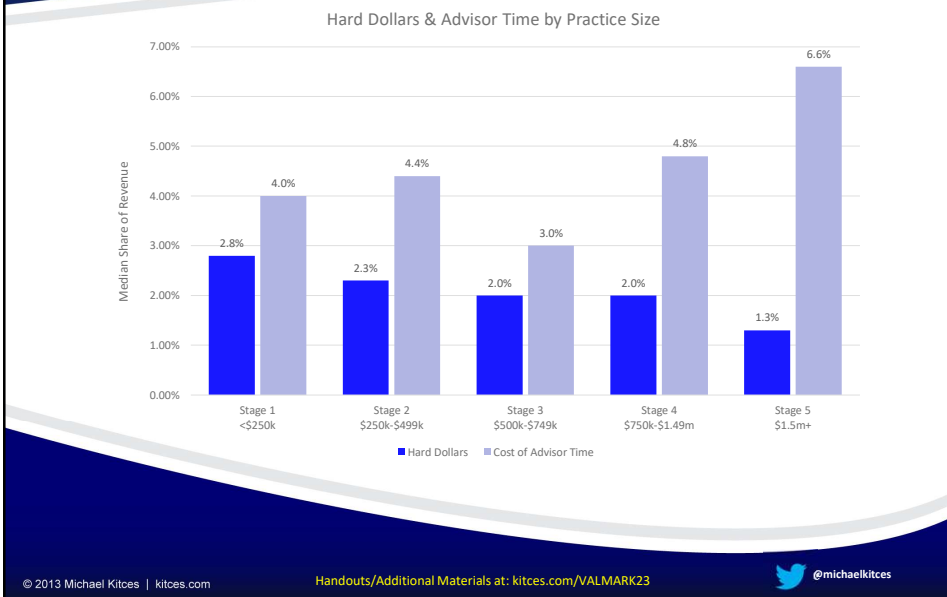
Client Acquisition Cost by Practice Size



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HOW DO STANDOUT ADVISORS ACTUALLY MARKET?



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WHAT IS YOUR CAC?

- The bigger the practice, the higher the cost of *your* time!
- The higher the cost of your time, the bigger the prospects *must* be!
- The bigger the prospects must be, the *harder* it gets to grow!

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HOW DO YOU SPEND YOUR MARKETING RESOURCES?

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HOW ADVISORS MARKET

Marketing Strategy	% of Advisors Using	Marketing Strategy	% of Advisors Using
Client Referrals	93%	Sponsorships	12%
COIs	60%	Podcasts	12%
Social Media	41%	Direct Mail	9%
Networking	36%	Print Media Ads	9%
SEO	29%	Solicitors	7%
Blogging	28%	Writing A Book	4%
Online Advisor Listings	26%	Hosted Radio Show	4%
Webinars	22%	Custodial Referrals	4%
Drip Marketing	20%	Radio Commercials	3%
Videos	19%	Purchased Lists	2%
Online Ads	17%	Telemarketing	2%
Client Appreciation	17%	TV Commercials	1%
Seminars	15%		

Upfront or ongoing marketing costs

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WHAT GENERATES COST-EFFECTIVE CLIENTS?

Marketing Strategy	Aggregate CAC	Marketing Strategy	Aggregate CAC
SEO	\$1,271	Networking	\$5,603
Client Referrals	\$3,334	Sponsorships	\$6,728
COIs	\$3,361	Webinars	\$7,585
Online Advisor Listings	\$3,403	Direct Mail	\$12,549
Drip Marketing	\$3,830	Podcasts	\$13,858
Social Media	\$4,152	Seminars	\$19,977
Online Ads	\$4,926	Videos	\$28,759
Solicitors	\$5,091	Blogging	\$53,612

Upfront or ongoing marketing costs

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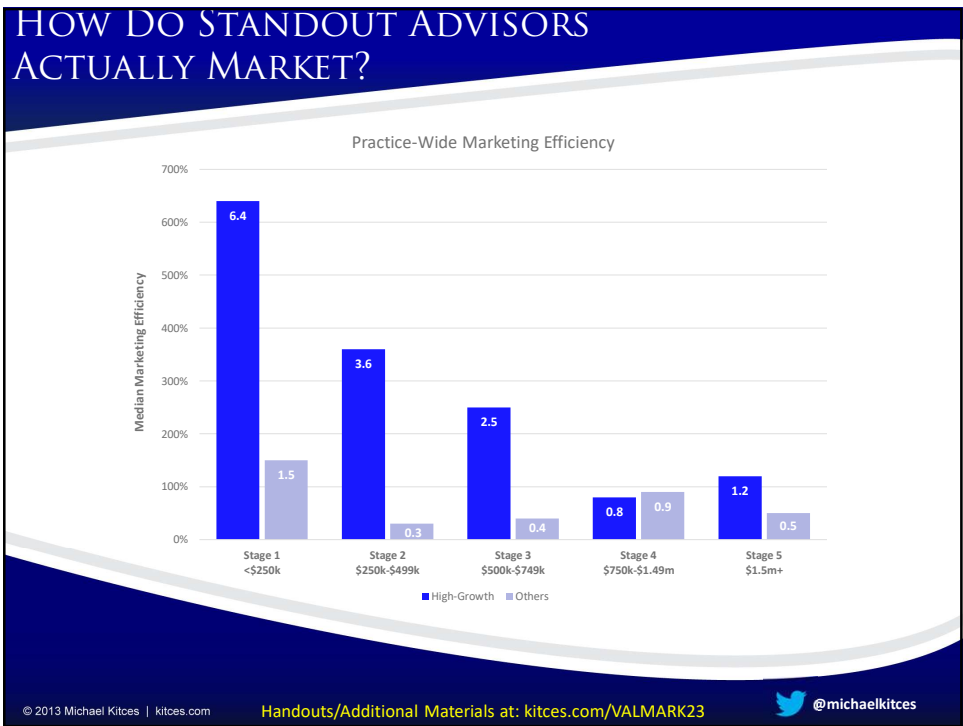
WHAT'S MARKETING-EFFICIENT?

Marketing Strategy	Efficiency	Marketing Strategy	Efficiency
SEO	2.7	Solicitors	0.8
Drip Marketing	2.3	Seminars	0.7
Client Referrals	2.2	Podcasts	0.7
COIs	1.7	Social Media	0.6
Online Ads	1.3	Networking	0.6
Sponsorships	1.3	Videos	0.2
Webinars	1.2	Direct Mail	0.2
Online Advisor Listings	0.9	Blogging	0.1

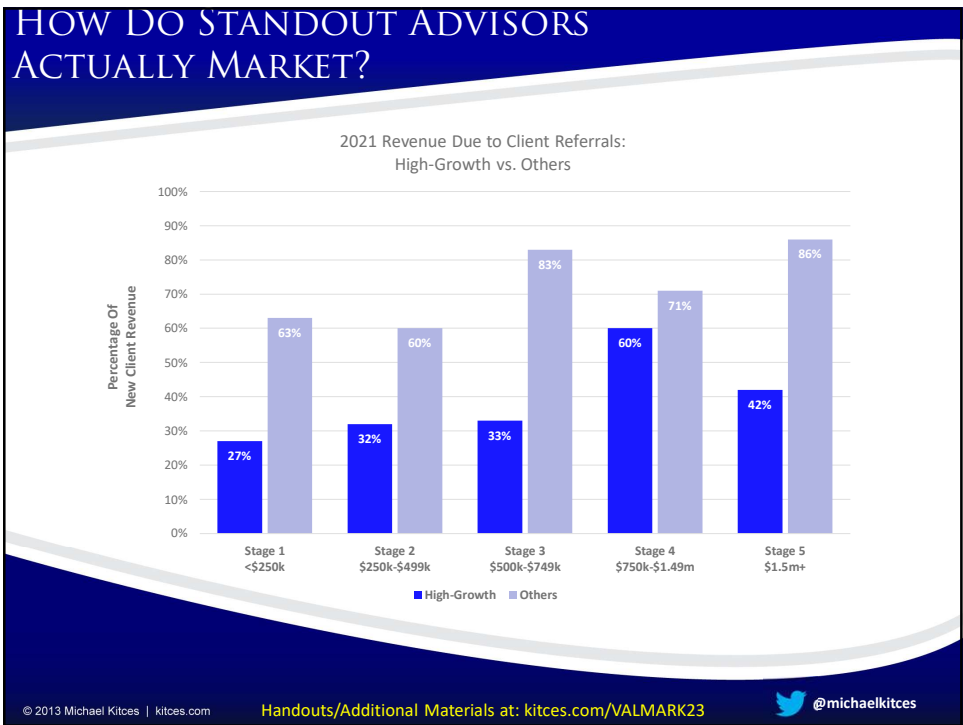
Upfront or ongoing marketing costs

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HOW DO STANDOUT ADVISORS ACTUALLY MARKET?

Smaller High -Growth Practices	High-Growth Practices of Any Size	Larger High-Growth Practices
Online Advisor Listings	COIs	Webinars
Third Party Solicitors	SEO	Drip Marketing
General Networking	Blogging	Videos
	Seminars	Online Advertising
	Podcasts	Sponsorships

Upfront or ongoing marketing costs

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KEY TAKEAWAYS

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KEY TAKEAWAYS

Two Key Numbers you must know for your practice

Lifetime Client Value

Client Acquisition Cost

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KEY TAKEAWAYS

- Figure out *your* Lifetime Client Value

- Attrition Rate = $1 - \text{Retention Rate}$

- Average Tenure = $1 / \text{Attrition Rate}$

- Lifetime Client Revenue (LCR) = $\text{Revenue/Client} \times \text{Average Tenure}$

- Lifetime Client Value (LCV) = $\text{LCR} \times \text{Profit Margin}$

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KEY TAKEAWAYS

- Figure out *your* **Client Acquisition Cost**

- Determine Total *time* spent on Sales + Marketing
- **Soft Cost** = Total Time x \$/hour Rate
- **Hard Cost** = Total hard dollar spend on Sales + Marketing
- Total Marketing Cost = Soft Cost + Hard Cost
- Client Acquisition Cost = Total Marketing Cost / # of New Clients

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KEY TAKEAWAYS

Are you happy with your CAC
(relative to LCV)?

If not, what can you do to improve it?

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KEY TAKEAWAYS

Can you *scale* your CAC?

If not, what do you have to do differently from here?

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QUESTIONS?

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