

Watermark Consulting 2021 Customer Experience ROI Study (Wealth Management Industry Edition)

*Demonstrating the business value of
a great customer experience...*



A Message From Watermark's Founder

Wealth Management firms are struggling to differentiate themselves, as investment advisors find it increasingly difficult to outperform their benchmarks.

In an environment characterized by regulatory scrutiny, consumer distrust, and disruptive technology, how can Wealth Management companies succeed? For many, the answer has been to lower their management fees and effectively turn the business into a commodity.

We thought there might be a better answer, and that was the spark for our Wealth Management Customer Experience ROI Study – where we sought to explore the impact of good and bad client experiences, using the universal business “language” of stock market value.

In this industry that's focused on building and maintaining wealth, the greatest riches go to those who deliver an excellent client experience.

What we discovered should be of keen interest to financial services professionals. That's because, as it turns out, in this industry that's focused on building and maintaining wealth, the greatest riches go to those who deliver an excellent client experience.

Thank you for the interest in our study. I wish you the best as you work to turn more of *your* clients into raving fans.

Best regards,



Jon Picoult
Founder & Principal, Watermark Consulting
Author, [From Impressed To Obsessed](#)

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The Business Challenge

The Wealth Management industry is, for lack of a better term, under siege.

Over the past decade, this industry has had to grapple with new realities that have fundamentally changed the nature of the business and its competitive landscape:

- **An erosion of trust.** Consumer trust in financial services deteriorated during the Great Recession and has struggled to recover. According to the Edelman 2021 Trust Barometer, financial services is one of the least trusted industries in consumers' eyes (second only to social media firms).
- **A spotlight on fees and conflicts.** Regulators, as well as increasingly informed consumers, have focused attention on the industry's transparency (or lack thereof) with regard to fees and conflicts of interest. Business practices that were common in the past are now under scrutiny.
- **Skepticism about stock-picking.** As actively managed funds increasingly underperformed their benchmarks, lower-priced passive investments have surged in popularity – leaving industry players wondering: if it's not investment returns that will differentiate us, then what will?
- **The rise of the Robo-advisor.** Low-cost, automated investment management solutions have garnered attention in the marketplace, putting greater pressure on financial professionals to defend their fees and demonstrate their value.
- **A race to the bottom.** Firms are challenged by how to differentiate themselves in this new environment. As a result, some have resorted to pure price competition (cutting fees as low as zero points), and this has only served to further commoditize the industry's offerings.

To combat these headwinds, and shape consumer perceptions more positively, financial services firms spend tens of billions of dollars each year in print and digital advertising.

However, as these companies will eventually discover, you can't advertise your way to a great customer experience. Ultimately, clients' perceptions will be shaped by the end-to-end experience itself – from how they're onboarded, to how their needs are assessed, to how they're kept informed over time.

Nevertheless, many industry players cling to a product-centric, rather than client-centric, view of the world. As a result, they subject their customers to a variety of frustrations and annoyances, and miss opportunities to forge lifelong client loyalty.

The Business Challenge

There are exceptions, however. Some Wealth Management firms are more deliberate in how they shape the prospect-to-client experience. And, as you'll see in a moment, that strategy is rewarded by consumers and investors alike.

First, though, an explanation of the thought process behind this Wealth Management Customer Experience ROI Study:

Our objective with this analysis was to help Wealth Management industry leaders understand the overarching influence of a great customer experience (as well as a poor one). To accomplish that, we sought to elevate the dialogue.

That meant getting the industry to focus, at least for a moment, not on the cost/benefit of specific customer experience initiatives, but rather, on the macro impact of an effective customer experience strategy.

We accomplished this by studying the cumulative total stock returns for two model portfolios – comprised of the Top 4 (“Leaders”) and Bottom 4 (“Laggards”) publicly traded companies in J.D. Power and Associates’ annual Full-Service Investor Satisfaction Studies.

How The Study Was Conducted

Our analysis was based on the cumulative total stock return for equally weighted, annually readjusted model portfolios comprised of Wealth Management Customer Experience Leaders and Laggards.

For each year covered by the study, Leaders and Laggards were defined as the Top 4 and Bottom 4 publicly traded investment management firms in J.D. Power and Associates’ annual Full-Service Investor Satisfaction Studies. (Those ranking slots generally equated to the top third and bottom third of public companies evaluated.)

Portfolio returns were based on the prior-year performance of the Leaders and Laggards, to ensure that the results were not influenced by the publication of the J.D. Power study itself.

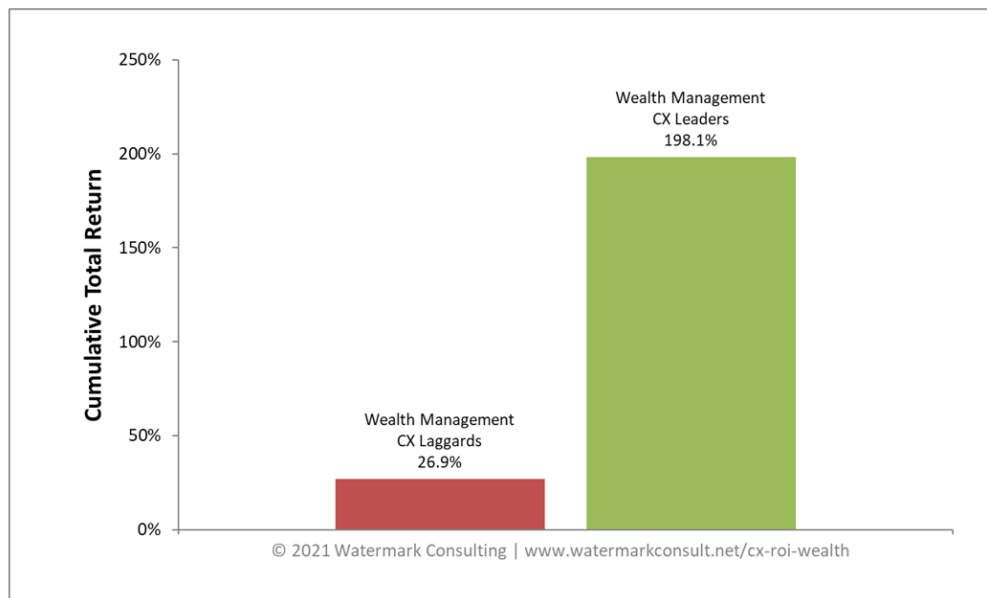
As the graphic in the next section vividly illustrates, the results of our study were quite compelling.

The Results

Thirteen years of investor satisfaction rankings were incorporated into our analysis. The graph below shows the cumulative total shareholder return across that period for the Customer Experience Leaders and Laggards.

Wealth Management Customer Experience Leaders Outperform

13-Year Stock Performance of Customer Experience (CX) Leaders vs. Laggards (2008-2020)



Wealth Management Customer Experience Leaders far outperformed the Laggards, and the size of the performance differential (**over 170 points**) was striking.



Wealth Management Customer Experience Leaders generated a total cumulative return that was **7.4 times greater** than that of the Customer Experience Laggards.



The shareholder return disparity between CX Leaders and Laggards has **nearly doubled** over the past few years, significantly widening the performance chasm between the two groups.

The Backstory: Customer Experience Leaders vs. Laggards

As this study demonstrates, the fortunes of Wealth Management Customer Experience Leaders and Laggards diverge in a dramatic and revealing way. What's driving the disparity in performance across these two groups?

While there are obviously many factors that influence a company's stock price, the results of this study indicate that, over the long-term, a great customer experience helps build business value, while a poor customer experience erodes it. That's an important takeaway, for public and private entities alike.

What creates that enhanced value? Answering that question requires understanding the economic calculus of a great customer experience. When a company consistently delivers an impressive experience to customers, it triggers behaviors that influence business financials in two important ways:



When most people think about the economic benefit from a great customer experience, this is where their heads go. And that's entirely appropriate, because revenue growth is indeed one clear advantage of customer experience excellence. Why? Happy, loyal customers have better retention, they're less price-sensitive and they're more willing to entertain offers for other products and services – all helping to raise revenue. Plus, because they love you so much, they spread positive word-of-mouth and refer new customers to you – lifting revenue even higher.



This is the part of customer experience economic equation that most businesses fail to appreciate. (It's also why using revenue growth, alone, to demonstrate customer experience ROI is misguided.) When you have happy, loyal customers, it helps to better control – if not reduce – your expenses. For example, due to all the customer referrals you're getting, you can spend less on new business acquisition – which reduces expenses. In addition, happy customers tend to complain less, putting reduced stress on your operating infrastructure (e.g., lower call volumes), thereby also helping to keep expenses in check.

Of course, these economic dynamics cut both ways. Customer Experience Laggards struggle to raise revenue (e.g., poor retention, high price-sensitivity, limited cross-purchasing, negative word-of-mouth) and they're burdened with higher expenses (e.g., to acquire new customers, and to deal with the existing unhappy ones). This weighs on their long-term profitability and makes them less valuable in the eyes of the market.

Learn From The Leaders

How do Customer Experience Leading firms create such positive, memorable impressions on the people they serve? It doesn't happen by accident. They all embrace some basic tenets when shaping their customer experience:

1

They aim for more than customer satisfaction.

Satisfied customers defect all the time. And customers who are merely satisfied are far less likely to drive business growth through referrals, repeat purchases and reduced price sensitivity. Maximizing the return on CX investments requires more than just satisfying customers, it requires *impressing them*.

2

They leave nothing to chance.

The Leading companies have a keen understanding of the wide array of live, print, and digital touchpoints that comprise their customer experience. They design each of these touchpoints very intentionally, carefully choreographing the interaction to create an experience that consistently nails the basics and also delivers pleasant surprises.

3

They shape memories, not just experiences.

How people remember the customer experience is arguably more important than the experience itself, as it's those memories that ultimately drive repurchase and referral behavior. The Leading companies recognize this, and they use cognitive science to engineer customer experiences that people enjoy in the moment but also remember in the future.

4

They infuse the experience with emotional resonance.

People's affinity toward a business is ultimately shaped by how they *feel* after interacting with the company, its representatives, and/or its products. CX-leading firms appreciate this, and so they engineer experiences that don't just focus on customers' rational requirements, but also address their emotional needs.

5

They focus on both the customer *and* the employee experience.

Happy, engaged employees help create happy, loyal customers (who, in turn, help create more happy, engaged employees). The value of this virtuous cycle cannot be overstated, and it's why the most successful companies address both sides of this equation – obsessing not just over their customers, but also over the employees who serve them.

Implications For Wealth Managers

The results of this study suggest there is competitive advantage to be gained in the Wealth Management industry by differentiating along the customer experience axis.

However, achieving that competitive differentiation requires that companies look at their business through a different lens, and embrace some unconventional operating principles – some examples of which we present below:

- **Retention is not a good proxy for loyalty.**

Wealth Management firms often rely on client or asset retention to gauge the quality of their customer experience. While retention is a valuable metric, it can be a misleading indicator of customer perception (after all, a retained client may not necessarily be a loyal one).

As a result, many firms tend to overrate the quality of their customer experience, and would benefit by complementing internal performance gauges (e.g., client retention, asset growth) with more externally-focused, Voice-of-the-Customer insights (e.g., satisfaction surveys, in-depth interviews, independent customer experience assessments).

- **Disclosure does not equal transparency.**

The Wealth Management industry often points to its disclosure practices as evidence of its trustworthiness (i.e., “we’re not hiding anything from our clients, it’s all spelled out in our disclosures!”).

What the industry neglects to realize is that the manner by which information is disclosed is as consequential as the information itself.

Investment disclosures (regarding conflicts of interest, commissions, fees, etc.) are typically dense, difficult-to-read documents which leave the average consumer more confused than informed.

To earn customer trust, financial services firms must strive for true transparency. That means eliminating the small print, skipping the legalese, and communicating with customers in clear, simple terms they can easily understand.

Implications For Wealth Managers

- **Fiduciary is not a four-letter word.**

When the U.S. government proposed new rules that would have required more financial services professionals to act in their clients' best interests, many in the industry were vocal in their opposition.

Adhering to that "fiduciary" standard, they argued, would be administratively onerous and costly (as compared to the "suitability" standard employed by many investment professionals). That the industry neglected to appreciate the consumer optics around this stance is a symptom of a much larger problem.

It's difficult to deliver a great brand experience when people know (or eventually discover) that a business puts its interests ahead of the customer's. For this reason, financial professionals who serve as fiduciaries should wave that banner proudly.

As for the individuals and firms who resist that operating model, they should at least move beyond the industry's traditional techniques of disclosure and clearly explain to customers (using plain language and real-life examples) the nature of their client relationship.

- **Emotions are as critical as earnings.**

Brokers and advisors who focus primarily on investment earnings are destined to deliver a mediocre customer experience (or something worse).

The best and most memorable customer experiences are those that strike an emotional chord in people – be it by accentuating positive feelings or mitigating negative ones. Many wealth and asset managers don't fully appreciate this. As a result, they miss opportunities to enhance the customer experience by, for example, celebrating clients' planning milestones or addressing their sources of anxiety.

People might not remember the exact rate of return a financial advisor achieved, but they'll surely remember how that advisor made them feel – confident or confused, assured or anxious, informed or ignorant. When it comes to building client loyalty, it's those emotional responses that make all the difference.

Implications For Wealth Managers

One key accountability of financial services professionals is to help their clients manage risk. Ironically, though, many in this industry are failing to address a key risk that looms over their business.

It's the risk that they become marginalized in an environment where their products and services are viewed as a commodity. It's the risk that even the fundamental value of Wealth Management providers is called into question, as consumers become increasingly skeptical and distrustful of the industry.

However, there is a solution. The best way for Wealth Managers to avoid the death spiral of commoditization is by delivering an exceptional end-to-end client experience – one that is devoid of common frustrations, one that inspires confidence, one that cultivates trust.

As this study has demonstrated, that's the kind of client experience that is rewarded by both Main Street and Wall Street.

Ready To Turn Your Organization Into A CX Leader?

Watermark has spent years studying companies that excel in customer experience. Through that research, we've pinpointed the customer experience design secrets of these highly successful companies, and those insights serve as the foundation for all of the work we do on behalf of our clients.

What customer experience challenges is your organization facing? Below are just a few that we've helped our clients overcome:

- **“We need to make the case for customer experience at our company.”** Our [executive education](#) programs will help demonstrate the value of customer experience excellence to company leaders, and show them how time-tested CX design techniques could be applied to your business.
- **“We don't really know what customers think of us.”** Our [Consulting Services](#) include quantitative and qualitative tools which help bring the voice of your customer to the forefront, revealing game-changing insights that will spur customer experience innovation and drive your business forward.
- **“We need to rally our employees around customer experience.”** Watermark founder Jon Picoult is an acclaimed [keynote speaker](#). Invite Jon to your next all-employee meeting, sales conference or corporate event – he'll inspire your team to deliver CX excellence, and show them exactly how to do it.
- **“We need to improve our customer experience, but we're not sure where or how to start.”** Our [Consulting Services](#), including Watermark's proprietary “Customer Experience Reality Check” will evaluate your current CX and develop a detailed roadmap for turning it into a competitive differentiator.

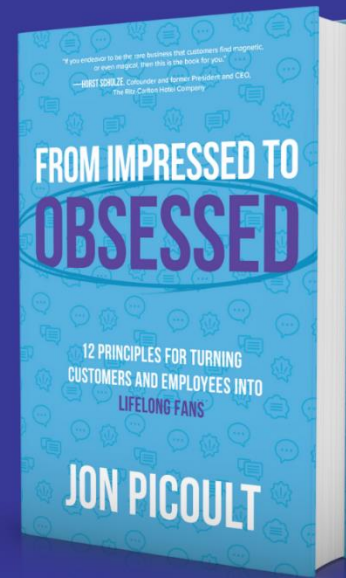
Through our Customer Experience ROI Studies, we've uncovered the techniques that top companies use to turn everyday people into loyal brand advocates. Let us help you apply the same techniques to *your* business – and turn your organization's customer experience into its greatest competitive advantage. [Contact us](#) to start the conversation.

The Definitive Guide To Customer Experience Excellence

"If you endeavor to be the rare business that customers find magnetic or even magical, then this is the book for you."

-- Horst Schulze, Co-founder and Former President & COO, The Ritz-Carlton Hotel Company

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We wrote the book on customer experience... literally!

Accelerate your customer experience transformation by capitalizing on the insights in Watermark founder Jon Picoult's acclaimed new book, "[FROM IMPRESSED TO OBSESSED: 12 Principles for Turning Customers and Employees into Lifelong Fans.](#)"

The book will fundamentally change how you think about creating a successful, beloved business. In it, Jon explores the cognitive science behind great customer experiences, pinpointing the breakthrough, psychology-based strategies that successful companies use to create unforgettable impressions that turn more sales prospects into customers, and more customers into obsessed brand ambassadors.

Packed with intriguing case studies, engaging stories, and eye-opening research, the book details these proven strategies and illustrates how they can be applied to any type of business.

FROM IMPRESSED TO OBSESSED reveals the what, the why, and – most importantly – the how behind great customer experiences. Filled with actionable insights, the book provides an invaluable roadmap for becoming the company that everyone wants to do business with, the employer everyone wants to work for, and the leader everyone wants to follow.

About Watermark Consulting

What if you could “watermark” your customer experience – making it so compelling and distinctive that, like a watermark on paper, it left an indelible impression that couldn’t easily be copied? This is Watermark Consulting’s focus.

We are a boutique customer experience consultancy. We help companies impress their customers and inspire their employees – creating raving fans that drive business growth. We’ve worked with some of the world’s foremost brands, helping them cultivate loyalty in both the marketplace and the workplace.

wa • ter • mark

A distinguishing mark impressed on paper during manufacture to make it appear richer and more distinctive. Often used to prevent imitation.

The philosophy behind Watermark is simple: With every interaction, businesses win or lose share. Each touchpoint – be it with customers, distributors, or even employees – presents an opportunity to either build brand loyalty or erode it.

Watermark helps companies capitalize on this concept by creating end-to-end brand experiences that don’t just satisfy, but impress.

To learn more about us, please visit www.watermarkconsult.net.