

# Client Segmentation

By the end of the course, you should be able to describe client segment categories, segment your clients into A+, A, B, C and D categories, and adjust your client management process to align with your client segments.

## Overview:

Physically, mentally, and emotionally we're only capable of developing meaningful relationships with about 125 - 150 people. Going beyond this limit really makes it hard to know all that you should know about your clients -- especially if they have larger, more complicated situations.

Most advisors eventually decide to choose who they want to work with and what characteristics each ideal client should possess. There are many benefits of segmenting your clients, including:

- Identifying current revenue yield (return on assets) and assessing whether adjustments to the fee schedule are required
- Determining who your unprofitable clients are
- Creating service and communication models that are differentiated by tier, ensuring that the most profitable and referral-friendly relationships receive the bulk of the firm's attention
- Aligning the expenditure of firm resources, both money and time
- Evaluating client value, both fees and quality of referrals
- Gaining insight into whether your current staffing model allows the firm to deliver exemplary service while being able to devote the appropriate amount of time and other resources to new client acquisition

This course will provide tools to make client segmentation simple. With the information you gain, you can then create a plan for client service, communication, and overall business growth that focuses on your ideal client

The process starts with segmenting your current clients in quantitative way, so you take your potential biases out of the mix. The process of gaining clarity on who you want to be spending your time with requires two steps:

- **Step 1:** Gain an understanding of the key attributes of each segment into which clients are typically assigned.
- **Step 2:** Segment your clients based on qualitative and quantitative measures.
- **Step 3:** Determine what processes and systems to adjust, based on what you find from the segmentation.

## Step 1: Describe the client segment categories.

Going through an intentional process of evaluating and assigning your clients to different categories allows for your firm's resources to be used effectively. Here are brief explanations of each client segment category:

### **A+ Clients**

First, are your A+ Clients. These are your very best clients and ones you'd most like to replicate. You thoroughly enjoy these relationships. They are typically high revenue generators for your firm. However, the most important factor for A+ clients is that they are enthusiastic referral generators. You may get 100 A, B, C, or D clients through marketing before you get an A+ client.

### **A Clients**

Second, are your "A" clients. These clients tend to be successful professionals, affluent retirees, and small business owners. They provide significant revenue for the firm. You would clone as many of them as you could. Your A clients seem to run in the same circles. Because of that, they have the potential to generate great referrals that could turn out to be "A" clients as well. If they never give you referrals, then keep them where they are. Referrals are what separates "A" clients from "A+" clients.

### **B Clients**

Next are your "B" clients. The goal is to promote these "B" clients to "A" clients by spending more time profiling and gathering assets that you don't have. To obtain these assets, you must establish complete credibility so they perceive you as someone who can handle their entire financial situation. This takes time.

Remember, just because someone is a "B" client this year, doesn't mean they are a "B" client forever. Since they consume less time, they are often still profitable relationships, and are good candidates to move to an Associate Wealth Advisor.

### **C Clients**

Your "C" clients are those who generate very little income for you. These clients can consume a lot of time if not managed properly. Hiring an Associate Wealth Advisor can help alleviate the consumption of your time. Creating scale when working with these clients is necessary in order for these relationships to be profitable.

### **D Clients**

Finally, there are two types of "D" clients.

**Type 1:** A client who you don't care for or get along with should be fired, even if they do have a lot of money invested with the practice. It takes too much energy to work with clients you don't like. The beauty of our business is that you can do business with people you like.

**Type 2:** A client who provides little revenue for the firm, who also doesn't give you any referrals. These clients have limited money invested and generate little revenue. Strategies to eliminate or minimize the time consumed should be considered.

**COACH TIP:** It is important to note that assets and revenue are just part of what makes an A+, A, B, or C client. Although AUM and revenue are some of the main criteria used to segment clients, they shouldn't be the only factors considered. Factors such as: "Do you like the client?", "Has the client

provided quality referrals?", and "Do you have all the client's assets?" should also be considered with rating each client.

## Step 2: Segment your clients into A+, A, B, C, and D categories

To effectively segment your clients, use the **Client Segmentation Spreadsheet** to begin the process. The spreadsheet contains all the factors we use at Carson to segment our clients. As you fill in the answers, the spreadsheet automatically applies points, which are then calculated into a client segment. To assign each client a rating in the **Client Segmentation Spreadsheet**, go through your entire client base and do these two things:

1. List all client households on the Client Segmentation Spreadsheet along with the household revenue and assets under management.

**COACH TIP:** Have a team member do as much of the legwork as possible for this activity.

Points are awarded based on AUM and/or revenue values and are assigned as follows:

Points	AUM is greater than:	<b>OR</b> Revenue is greater than:
5	\$ 1.5 M	\$ 15 K
4	\$ 1 M	\$ 10 K
3	\$ 500 K	\$ 5 K
2	\$ 250 K	\$ 2.5 K
1	\$ 100 K	\$ 1 K

2. Then, enter an answer for each additional column. Points are awarded as follows:
  - Greater than 80% of revenue is fee based – 1 point
  - Probability of significant new assets in 5 years: High - .5 points; Medium - .25 points
  - A or A+ referrals – 1 point per referral
  - Enjoyable Relationship and Acts on Recommendations: High - .25 points
  - Embraces Financial Planning: Yes – 1 point
  - Strong Relationship with Spouse and Beneficiaries: Yes - .25 points
  - Note that no points are awarded for either answer in Investor Lifecycle category.

**COACH TIP:** Choose "Yes" for Embraces Financial Planning only for those clients who meet the following criteria: 1) a comprehensive plan is in place that reflects their financial objectives and personal aspirations – this plan would likely include investment planning, estate planning, retirement planning, insurance planning, cash flow and budget, assistance to loved ones and tax planning, 2) assets are invested in a way that reflects the identified goals, and 3) client review meetings revolve around the financial plan.

3. The spreadsheet automatically adds the points together for a Total Score and then categorizes the clients into segments as follows:

Score	Segment
>6	A+
>4	A
>3	B
>2	C
<=2	D

Now that you have an idea of where your clients rank, review the summary tab to see the total number of A+, A, B, C, and D clients.

Now that you have completed the segmentation process, it's important that you do something with the information and insights you've gathered. In the next step, we'll cover actions you may want to take based on your results.

### Step 3: Adjust your client experience processes to align with your client segments

Once your clients are rated, now you can begin to use the information to optimize your client experience, differentiate between profitable and unprofitable clients, examine fee structures, and assess where you should be allocating time and resources in your firm.

- Record the client information in CRM, to use for automation of segment specific service and communications
- If you have, for example, 2 A+ clients and 10 A clients, but 100 C clients and 250 D clients, you will need to determine what the ideal number of clients you would like in each category by some date in the future and use the strategies above for managing to those desired numbers.

If you find that you have a large number of unprofitable clients, then you may want to revisit your service and fee structure. Some advisors institute minimum fees or reduce services to better align with the revenue generated by each client segment. See our course on [Service Models and Fees Structures](#).

- Use the information to define your ideal client profile. More information can be found in the Carson Coaching Online course [Defining Your Ideal Client](#).
- Update your client communication strategy. More information can be found in the course [\(Client Experience\) CX: Communication](#).
- Use the information to develop targeted business development strategies. More information can be found in the course [Strategic Prospecting Plans](#).

### Summary:

Knowledge is power. Effective client segmentation can help you focus on the things you can do to support your most profitable and enjoyable client relationships!

## FAQs:

- **What happens when you re-segment clients and someone falls into a new lower bracket?**
  - The first thing to do is consider a 2- or 3-year rolling point average. If a client drops from A to B because they miss a year of giving you a good referral, but did so for the two previous years, they should stay as an A. However, clients can drop if you upgrade your categories or if they become stagnant.
  - If a client drops a category after a 2- or 3-year rolling average re-segmentation adjustment, be clear with that client how the service will change going forward. Some firms have fee structures that allow clients to pay an annual fee to remain in the next tier and have access to that tier of service.
- **My firm categorizes the segments in a different way. Do we need to use the same categories, or factors to determine the categories?**
  - This course is designed to help a firm that has neither clearly defined categories or factors. You can use whatever part of the course is valuable, then tailor the categories and/or factors to what works best for your firm. The important thing about the process is using it to be more intentional about client acquisition and service.
- **Are there situations where I would override the segment calculated in the spreadsheet?**
  - Yes! You can upgrade someone who is a great referral source, or they are related to an A+ or A client. You can downgrade a client that you really don't like, even if they are highly profitable.
- **Can I override the way the spreadsheet calculates points?**
  - Yes. You can go into the calculations and change them to suit your firm.

## Resources:

Learn more and download the resources referenced in this document from the [Client Segmentation](#) course in Carson Coaching Online.

- **Client Segmentation Spreadsheet**