MARKETING WIZ™
connecting brands + people

The State of **Independent Financial Marketing**

How much firms are investing in marketing, tactics being leveraged by high-growth firms, and trends to watch in the next decade

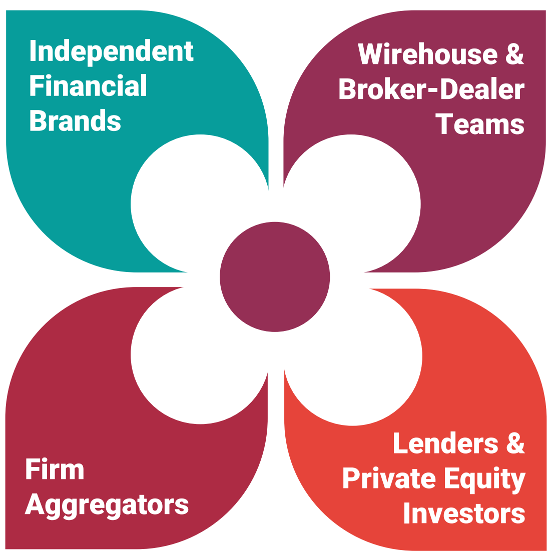
MARKETING WIZ REPORT

Why the Research?

In 2015, 23% of all assets in the United States were managed by independent financial firms. By 2020, this market share will grow to 28%[1]. This shift in the U.S. financial industry was unimaginable just a few short years ago as the dominance of banks, broker-dealers, and wirehouses have historically provided little space for independent financial brands.

The purpose of this whitepaper is to explore the state of financial marketing by independent financial brands in the United States, how high-growth firms are standing out, and the trends we expect to become increasingly relevant over the next decade.

There are four groups that will benefit from the research found within this white paper:



The Groups

Independent Financial Brands

Many independent RIAs struggle to understand what percentage of revenue should be put toward marketing initiatives on an annual basis. Even if a hard dollar amount is known, many firms are uncertain as to where this marketing investment should be placed to be most effective.

Wirehouse and Broker-Dealer Teams

The wirehouse migration is in full swing, and advisor teams who are considering a move to the independent space need to understand the marketing investment required to replace the marketing support that is currently coming from their back office.

[1] Cerulli, *U.S. Intermediary Distribution 2016: Evolving Roles in Distribution*. Market share estimate includes RIAs and hybrid RIAs.

Groups cont'd.

Firm Aggregators

When looking at acquiring independent financial brands, firm aggregators need to understand how a firm's marketing investment compares to competitors within the space. Even more important is to understand how a change in this investment will impact growth moving forward.

Lenders and Private Equity Investors

A critical valuation metric for any entity is projected revenue growth. Lenders and private equity investors who specialize within the independent financial space need to understand the marketing investment required to reach AUM and growth targets used in pro forma analyses.

Executive Summary

$2 billion in assets is moving every day from one generation to the next

66% of children will fire their parent's financial advisor after receiving an inheritance

- Each day, $2 billion in assets move from Baby Boomers to Gen X and Gen Y[2]
- After receiving an inheritance, 66% of children will fire their parent's financial advisor[3]
- Many financial brands lack a focused approach to capture this money in motion
- High-growth firms are growing at an average five-year net organic CAGR of 9.4%[4]
- The average firm is plowing just 1.8% of revenue into marketing activities.[5]
- This means that the average RIA with $850 million in AUM is spending $153,000 annually on marketing investments[6]
- Industry leaders are using a truly omni-channel approach to grow AUM

Financial marketing is any activity done by a financial brand to generate leads, warm prospects, engage clients, capture AUM, and attract new advisors or top talent to the firm. Don't make any mistake about it: the traditional forms of marketing like direct mail, seminar programs, or lunch and learn sessions still provide value. However, we are seeing industry leaders use a truly omni-channel approach to client acquisition and growth.

Innovative marketing approaches being leveraged by industry leaders in 2017 include:

- Banner ad space on the Wall Street Journal website
- Pay-Per-Click campaigns to drive white paper downloads
- Case studies focused on robo-advisor or risk management platforms
- IP-driven display ads and remarketing campaigns
- Nurture campaigns leveraging if-then workflows

2 Marketing Wiz calculation based on 40 year estimate from Accenture in the report titled *Capitalizing On The Intergenerational Shift In Wealth.*

3 InvestmentNews, *The Great Wealth Transfer Is Coming, Putting Advisers At Risk*

4 Charles Schwab, *2017 RIA Benchmarking Report*

5 Pershing, *2016 Financial Performance Study*

6 Marketing Wiz analysis, methodology and assumptions shown in the appendix

Money In Motion Is Driving Innovation

In part, leaders within the independent financial space are taking an innovative approach to marketing because it is in their DNA to do so. These firms chose to enter the independent space because they had a deep desire to chart their own course and build a brand outside of the traditional wirehouse or broker-dealer model. The second—and likely larger—factor driving marketing innovation within these firms is the simple economics of getting in front of the next generation of investment clients.

In 2017, we are in the midst of the largest wealth transfer in modern history, as $30 trillion dollars will move from Baby Boomers to Generation X and Y investors over the next 40 years.[7] This means that every single day, $2 billion in assets is moving from one generation to the next through a death in the family, estate liquidation, or early inheritance.

The concern for independent financial brands is that these client relationships client relationships may be significantly less "sticky" than what most financial advisors would like to admit. According to a study by InvestmentNews, 66% of children will fire their parent's financial advisor after receiving an inheritance[8]. If $2 billion is moving every day, and 66% of children are leaving their parents financial firm, this means there are $1.32 billion in assets which are effectively "up for grabs" on a daily basis. To put this in a little bit more context: just in the time you have been reading this white paper, $4.5 million in assets have left an established financial relationship. These funds are moving from advisor to advisor, advisor to robo-platform, or maybe into a low-yield savings account.

The economics of this fund flow cannot be ignored for independent financial brands looking to outpace, outgrow, and out-acquire the competition.

Changing Mindsets

While this fund movement represents a massive business risk for financial brands across the spectrum, it represents an even larger opportunity for firms which are actively engaging the next generation of investment clients. This engagement can, many times, require firms to take a fundamentally different approach to marketing than what has been successful with the baby boomers that have historically driven AUM growth.

The most successful marketers within the independent advisory space are acutely aware that how they *would like to market* may be very different than how Gen X and Gen Y investors *would like to receive* information.

7 Accenture, *Capitalizing On The Intergenerational Shift In Wealth.*

8 InvestmentNews, *The Great Wealth Transfer Is Coming, Putting Advisers At Risk*

Changing Mindsets cont'd.

Traditional Marketing Mindset	Next-Gen Marketing Mindset
Single eBlast	Nurture Process
1-Click PPC to Conversion	Multiple Touchpoints
Low-Value Messaging	Branding & Mindshare
Call-to-action	Value-rich Content
Leads Generated	Key Performance Indicators
Editorial Calendars	If-Then Marketing Logic
Always Be Closing	Tribe Building

Let's Talk Numbers

According to the 2017 RIA Benchmarking Study from Charles Schwab, the top 20% of RIAs in terms of growth saw an average 5-year net organic CAGR of 9.4%, with 38% of this growth attributed to marketing activities. The bottom 80% of RIAs in terms of growth saw an average 5-year net organic CAGR of just 3.9%, with 31% of this growth attributed to marketing activities. While correlation is not causation, this data shows that high-growth firms are capturing more assets, as a percentage of overall growth, through marketing activities when compared to their low-growth peers. The referral channel—both from existing clients and centers of influence—made up the remaining two-thirds of firm growth over this time period.

According to a separate study by Pershing, the average firm is plowing back just 1.80% of revenue into marketing[9]. Because of this, a distinct line in the sand exists between high-visibility and low-visibility independent financial brands. While we certainly do encounter success stories from firms investing less than 1.00% of revenue in marketing, the data supports that client acquisition and marketing investment are related, as we would expect in any industry.

Market Size for Independent Brands

As the market share of assets controlled by independent financial brands has grown, so too has the aggregate marketing investment made by financial brands on an annual basis.

In 2016, Global AUM was estimated at $69.1 trillion dollars[10]. Of this $69.1 trillion, $33 trillion is controlled by firms in North America[11]. Fees within the independent channel have held steady at 1.00% of AUM[12]. Pershing estimates that the average firm puts 1.80% of revenue towards marketing on an annual basis.[13]

This means that the total marketing investment made by independent wealth management brands in 2016 was well over $1 billion. Using the published research available today, we estimate that this number is likely closer to $1.36 billion[14].

9 Pershing, *2016 Financial Performance Study*

10 Boston Consulting Group, *Global Asset Management 2017*

11 Boston Consulting Group, Global Asset Management 2017

12 Charles Schwab, *2017 RIA Benchmarking Report*

13 Pershing, 2016 Financial Performance Study

14 Marketing Wiz Calculations Using Publications Cited Within This Whitepaper

Taking A Closer Look: How Firms Stack Up

$1.36 billion is a large number to put in context, and this is why we created a model that independent financial brands can use to see where their marketing investment stacks up relative to firms of similar size and fee structure. This model uses our projections on the size of the industry, what the average firm is investing in marketing on an annual basis, and the two critical variables that determine how much a firm can put toward marketing annually:

1. Assets Under Management
2. Average AUM fee charged on aggregate

In one example **[SEE BACK COVER FIG. 1]**, we consider the case of a firm that has $850 million in assets under management, is charging 1.00% in management fees annually, and has an annual marketing budget of $110,000. This annual market budget accounts for:

Cost of Labor

Salaries for the VP of Marketing, social media managers, graphic designers, web developers, support staff, etc

Distribution Platforms

Vestorly, Mailchimp, Marketo, Gainfully, Hubspot, Hootsuite, etc

Content Providers

Broadridge, Scripted, Column Five, Fractl, etc

Variable Marketing Costs

Google Adwords, pay-per-click campaigns, etc

Third Party Service Providers

Outsourced marketing teams that support the work done by internal marketing staff. These organizations create campaigns, write copy, and assist in lead generation and sales funnel development.

What we see from our modeling is that this firm is spending $43,000 less on marketing activities each year than the average firm, which has $850 million in AUM. Put within the context of $2 billion in assets moving daily for the next 40 years and 66% of inheritors firing their advisor, and this firm is quite literally behind the curve.

Closer Look cont'd.

In another example [SEE BACK COVER FIG. 2], we consider the case of a $1.2 billion dollar firm charging 0.80% on average and investing $190,000 annually on marketing. Our modeling shows that this firm is spending $17,200 more than their average peer as measured by revenue.

Final Thoughts

The independent financial space is changing rapidly, providing both risks and opportunities for brands, advisors, firm aggregators, and private-equity investors.

A rising tide lifts all boats, and we firmly believe that the independent financial space is ripe for alpha growth— especially when compared to the historically dominant model of the wirehouse, broker-dealer, and bank channel. Innovative firms will want to continue leveraging best-in-class technology, mindsets, and personnel to make the most of this opportunity— ensuring that the next generation of financial clients are in their sights.

Appendix

To create our Financial Marketing Bell Curve, we started by looking at research available on the size of the financial marketing space and overlaid several assumptions related to how firms' marketing investments were distributed around the mean.

In 2016, Global AUM was estimated at $69.1 trillion dollars[15]. Of this $69.1 trillion, $33 trillion is controlled by firms in the US or Canada[16]. Independent firms control 23% of these assets[17]. Fees within the independent channel have held steady at 1.00% of AUM[18]. Pershing estimates that the average firm puts 1.80% of revenue towards marketing[19].

For our Financial Marketing Bell Curve, we assumed that the average firm is charging a 1.00% fee on aggregate AUM and that the average firm is spending 1.80% of revenue annually on marketing activities. We assumed that the dollar amount invested by firms (relative to their AUM total) is distributed normally around this mean expenditure of 1.80% of revenue. We then assumed that one standard deviation captured firms spending +/- 25% of the mean. Based on our experience working with independent financial brands, we feel this standard deviation assumption is reasonable.

With these assumptions, we were able to construct a bell curve which represents the industry as a whole and is driven by published estimates from best-in-class sources.

15 Boston Consulting Group, *Global Asset Management 2017*

16 Boston Consulting Group, *Global Asset Management 2017*

17 Cerulli, *U.S. Intermediary Distribution 2016: Evolving Roles in Distribution.* Market share estimate includes RIAs and hybrid RIAs.

18 Charles Schwab, *2017 RIA Benchmarking Report*

19 Pershing, *2016 Financial Performance Study*

FIGURE 1

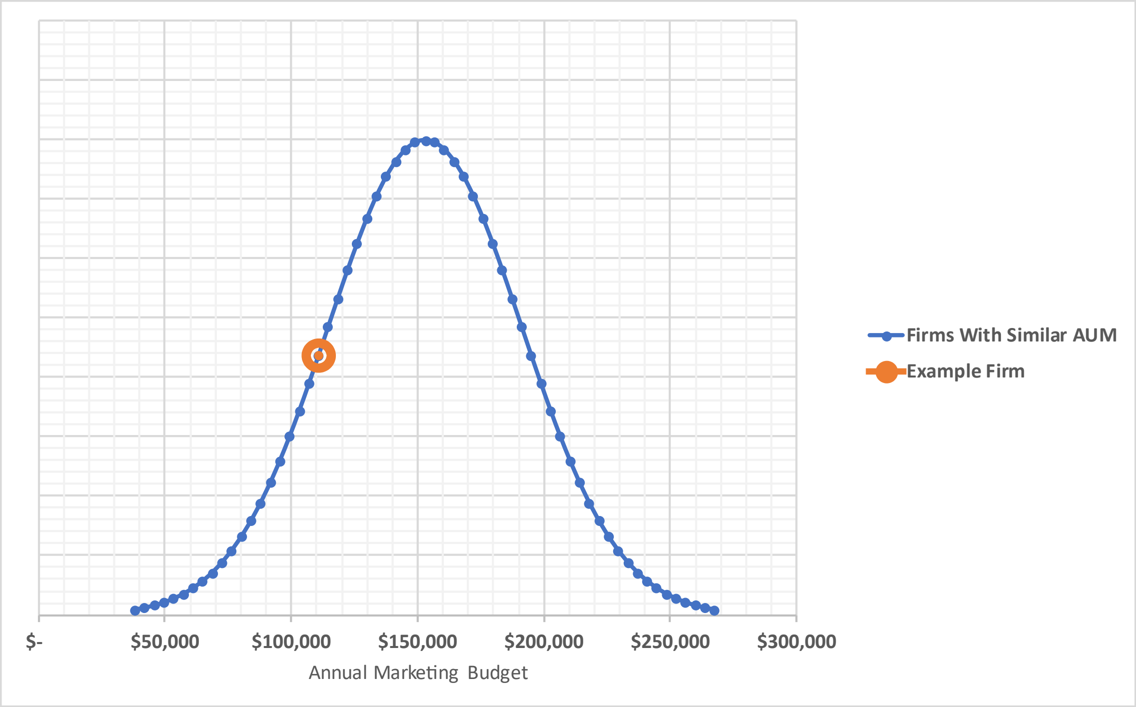
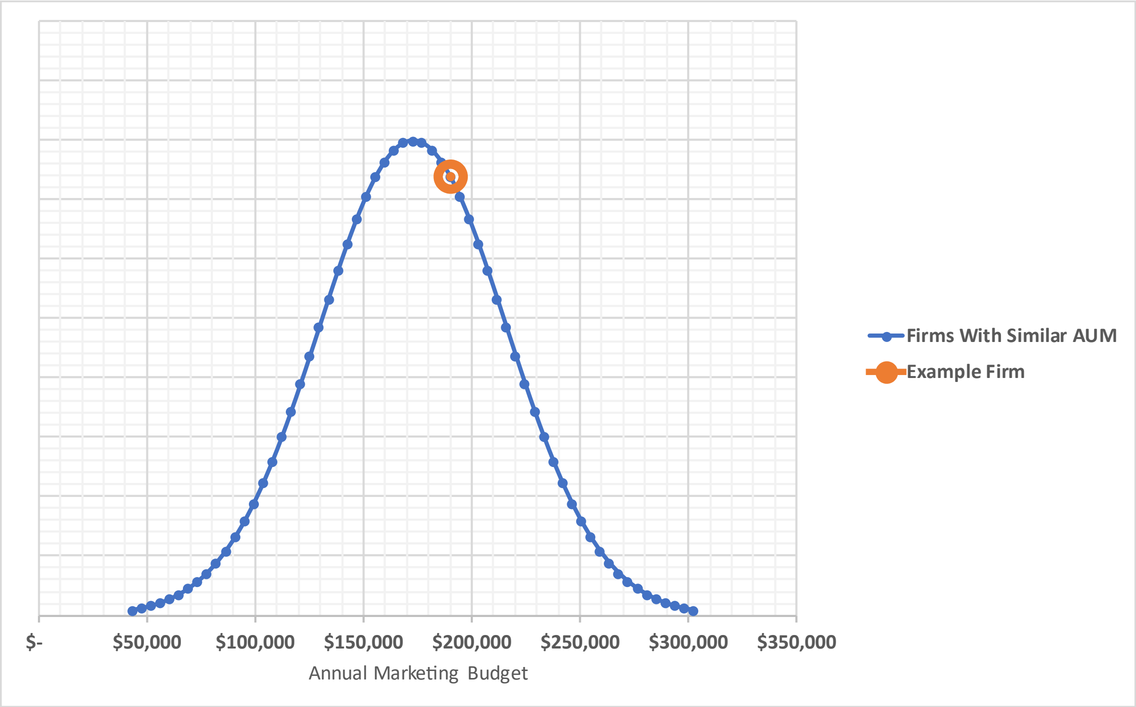


FIGURE 2



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