

The End of Prospecting

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I am convinced we are in the midst of a significant shift in the way we attract new clients – something that will lead to the death of mass prospecting as we’ve historically known it.

Recent conversations with investors and advisors confirm my belief.

This has little to do with the market decline of 2008 – and everything to do with a much more informed and skeptical consumer than in the past.

The last twenty years has seen a steady and precipitous decline in the response rates to all the traditional forms of mass prospecting. As a result, a dramatic – and in my view permanent – shift is occurring in what it takes to attract new

clients going forward. The essence of this change is that the traditional divide between communication to clients and communication to prospects will

disappear – and advisors will have to start treating prospects like clients from the moment they start talking to them.

The past

As recently as the sixties, the 10-3-1 rule still prevailed in the insurance industry – if you spoke to 10 prospects, you got three appointments and had a high likelihood of making at least one sale.



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In the late eighties, mail drops offering free research reports garnered return rates of 10% to 15%. If you mailed out 500 letters offering a research report, you could expect 50 to 75 responses.

In the mid nineties, hotel rooms across were packed with prospects attracted by newspaper ads offering free seminars featuring media celebrities. Many advisors built their businesses based on the turnout to those seminars.

In the words of cult novelist S.E. Hinton, “that was then ... this is now.”

The present

Even before the market events of last year, response rates to mass marketing of all forms had dramatically declined. A conversation last spring with an advisor from one of the large wirehouses drove this home.

This advisor had been in the business about six years and focused his prospecting on running dinner seminars at elite restaurants in high-end neighborhoods, featuring his firm’s managed money program in an after-dinner talk. With financial support from that program, his practice was to conduct twice-monthly dinners in private rooms at the highest end restaurants he could find. His goal for each dinner was to attract ten households, either single decision makers or couples.

The managed money program took care of all the details – booking the restaurant and mailing out embossed “wedding style” invitations to affluent areas close to the restaurants, targeting communities where investable assets were likely to be at least \$1 million. All the advisor had to do was to show up, deliver his talk and follow up with the attendees.

The question I was most interested in was how many of these “wedding style” invitations it took to get out ten households willing to avail themselves of this free dinner.

The answer was 1,000 – yielding a response rate of 1%.

And how many sales did he make to the ten households who typically attended?

The answer: His goal was to make one sale – occasionally he made two, but frequently he did not get any new clients from the dinner.

This conversation illustrates the dramatic drop in response rates to mass prospecting --- and this was before the spike in risk aversion as a result of the market volatility since last September.



And here's the real killer. Not only are response rates way down, but when you do get a response, prospects have their guard up, afraid of "being sold."

The future

My conclusion is simple: Every form of prospecting has always ultimately been a numbers game – and always will be. That is true of focusing on referrals just as it is of mass advertising. The big change is in the magnitude of those numbers – the return on high trust activities such as referrals has been stable and in some cases improved, while the numbers on mass prospecting have plummeted.

The bottom line: Dropping response rates will make the economics of mass prospecting less and less attractive.

One important implication of this is that the traditional divide between communication to clients and communication to prospects will disappear.

Given the growing level of skepticism on the part of the investing public, the most compelling communication to prospects will not relate to prospecting breakfasts, lunches, dinners and workshops. It will not feature special offers advertised in the paper or offered via direct mail. Nor will it focus on cold calls to business owners, offering a second opinion on their situation.

It's not that these approaches can't work – anything within reason will work if you do enough of it. The problem is that the response rate to anything that investors see as a "sales pitch" is already low and will only decline further.

So if mass prospecting won't work, what will?

The answer relates to what you hear when you ask investors who select a new advisor what the key factor in their decision was. The answer: "I felt I could trust this advisor."

That's why high trust approaches based on referrals consistently show up as the most effective prospecting approaches. Whether it is referrals from clients, professionals or other parts of the financial institution where you work, referrals work because they're fundamentally a transfer of the trust that someone has in you to their friend, colleague or client. (And the more assets someone has, the more critical referrals tend to be.)

A focused effort to become the trusted "advisor of choice" within a defined target community will continue to yield results. (Without pushing this parallel too far, this is why Bernie Madoff's got so many of his assets from within the Jewish



community in New York, Florida and Southern California. He built a position as the trusted, go to resource for this community and was the beneficiary of word-of-mouth referrals among that group.)

Merging client and prospect communications

Going forward, successful advisors will not have separate streams of communication for prospects and clients, but will instead integrate their communications with clients and prospects.

Rather than telling prospects that you'd like to send them an information package on your services, advisors will say: "I'd like to put you on the distribution list for the material I send my clients, so that you can get the sense of the kind of communications my clients receive."

Rather than spending money on brochures and audio and video business cards, advisors will build client friendly websites, packed with useful information and resources for clients – and then invite prospects to browse their site, giving them a sense of what life as a client would be like.

And rather than invitations to special workshops or lunches for prospective clients (and risk having these prospects attend with their defenses up, waiting for the sales pitch), advisors will say: "I run a regular series of sandwich lunches in my boardroom for interested clients, talking about what's happening in markets. If you're interested in sitting in, I'd be happy to have you join us."

It would be wrong to suggest that this approach is entirely new.

In the late 90s, I talked to an investment advisor focused on high end investors with \$5 million plus about how he built his client base. What had worked best for him were monthly lunches at a private club for existing and prospective clients. Some clients attended two or three times a year, many others never attended. In his view, the key was that all clients had the opportunity to attend.

These lunches were very informal – typically he spent no more than 20 minutes highlighting recent market developments and his outlook for the period ahead. Then he opened the floor to questions and discussion. He limited attendance to twelve people – if there was more demand, he held another lunch.

He tried many ways to bring new clients on board before hitting on this approach – but found this had far and away the most success. When talking to prospective clients, his goal was to get them to attend one of these lunches and, over time, his clients became comfortable inviting friends to attend with them.



His approach was critical to getting clients to bring along friends. The week before the lunch, he'd call up clients who had accepted his invitation and say: "I'm delighted you'll be able to join me next Thursday. While this lunch is for existing clients, I do have one spot available – in the past you've mentioned your partner Pat, I wonder whether she might be interested in coming along with you?"

All of this assumes, of course, that advisors have client communications to share with prospects— whether it is investing in a client friendly website, sending articles on a regular basis from credible sources, offering conference calls or hosting client luncheon roundtables and presentations

Advisors who invest the time and effort to ramp up client communications and extend them to prospects will discover it is an effective and efficient method of building your client base... and it will allow you to get past the downward spiral in response rates to mass prospecting.

** Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.strategicimperatives.ca.*

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