

## Punctuated Equilibrium

By Dan Richards\*

January 26, 2010

*Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives*

*A [list of Dan Richards' previous articles](#) appears at the end of this article.*

Recently, I hosted a series of luncheon roundtables for groups of financial advisors. During those, we discussed the disorienting pace at which the investment industry is changing.

For many advisors, the holidays were a time to reflect on plans for the coming year. If you're among that group, here's some food for thought as you consider the direction of your business in 2010.



I've been a participant in and observer of the investment industry for over twenty years. At no time can I recall anything approaching today's level of angst about the future.

Part of that relates to investor discontent arising from 2008's stock market collapse.

That discontent, however, misses an important point. We're dealing with a more fundamental issue than the recent market turmoil. We're going through one of those rare periods of ground-shaking change that have taken place throughout history, something that was in the works well before last fall's market excitement.

The late Harvard scientist Stephen Jay Gould first identified a concept called "punctuated equilibrium." His core idea was that while change is a constant, the pace of change isn't. For millennia, species have gone through centuries of slow, almost imperceptible change – interspersed with periods of incredibly rapid and intense shifts.

The same phenomenon has taken place throughout human history.

For example, in 1800 Napoleon's troops travelled using roughly the same technology and at approximately the same speed as Caesar's army almost 2,000 years earlier. By 1850, railroads had forever changed how armies would travel.

The investment industry is going through that same sort of epochal transformation – in which all the traditional rules of the game are up for grabs.

### **More demanding customers**



Of course, it's not just the investment industry that's going through this change – it's hard to find a sector of manufacturing or retailing that hasn't gone through a fundamental shake-up over the past ten years.

A few common patterns are driving these changes.

First and foremost are brutally demanding, intensely value-focused customers – today, providing tepid value means you're toast.

When I interviewed investors twenty years ago, the decision to work with an advisor was typically driven by historical relationships. Back then, investors told me "It may have taken my advisor a while to win me over, but now that I've started working with him, I'm going to stay unless he gives me a reason to go."

Now I hear an entirely different story. Investors today tell me "I may have worked with my advisor for five, ten years or longer, but I'm going to go unless she gives me a reason to stay."

The change in the driver of decision making from yesterday's relationship to today's value has transformed industry after industry – look no further than automobiles, where in the 1960s loyalty ruled the day and men proudly branded themselves as "Ford buyers" or "GM buyers." Today, cost, performance, image and factors such as environmental awareness weigh more heavily in the decision making process.

### **Technology and global competition**

Today's vigilante customers are wreaking havoc on traditional business models. Empowering this is incredibly intense local competition, technology beyond most of our wildest imaginings just twenty years ago and, in many industries, a new level of aggressive global competition.

In the financial industry, many of the clearly defined parameters that existed in the past have disappeared.

In part, this is because of the evaporation of the traditional divisions between competitors. In the eighties, supermarkets competed against supermarkets, drug stores against drug stores and mass merchandisers against mass merchandisers. Today the fight for the customer's dollar is a no-holds-barred brawl in which every retailer competes against every other retailer.

The same thing has happened in the financial industry. Not that long ago, there was a neat demarcation between competitors. No longer – today everybody is in everybody else's backyard, going after their best customers.

This heightened competition has been accelerated by the internet, which has levelled the information playing field and shifted the balance of power from producer to the customer. At the same time, increased processing power has allowed an unparalleled level of complexity in design and manufacturing.



In the investment industry, technology has led to 24-hour trading, with the ability to buy and sell stocks at sliver-thin prices. And technology has also led to innovative new products such as exchange traded funds (not to mention things like incredibly complex derivatives that would have been unimaginable twenty years ago).

### **Demonstrating value**

The one element that will, more than anything else, define tomorrow's winners is the ability to demonstrate clear, compelling, discernible value. That's true of manufacturing, retailing ... and it's true of financial advice.

Many financial advisors recognize that the traditional business model is seriously challenged. Less clear is what will replace it going forward.

A single successful model will not emerge – rather, there will be a variety of approaches.

One thing they'll have in common is a clearer and higher standard of value than existed in the past.

As you think about where you're going to take your business in 2010 and beyond, you need to answer two key questions.

First and foremost, what's your response if a prospective client says to you: "*What's the unique value that you provide your clients?*"

It's a cliché to say that not long ago investors paid for transactions and access to information and got advice for free. Today, more and more investors see transactions and information as commodities – the only thing left for advisors to charge for is superior advice that makes sense of the overwhelming volume of information and assimilates it into a sensible plan, as well as effective ongoing communication around that plan.

In some cases, that plan focuses on investment or insurance advice alone. In other instances, advisors also provide a broad range of advice on wealth issues such as tax and estate planning and charitable giving.

And in some cases, advisors focus on a subset of investors such as business owners, retirees or investors planning for retirement with a view to providing specialized expertise that "generalist" advisors can't match. Other advisors take a more broadly based "all-comers" approach to the clients they serve.

Value doesn't normally reside in the plan itself –value resides in what the plan and the communication around that plan achieve.

In some cases, that might be concrete tax savings.



In others, it will be value for money, with investors feeling their portfolio is in better shape by working with their advisor than it would be if they were elsewhere or doing this on their own.

In other instances, the value might be clients' peace of mind or the ability to avoid having to spend a great deal of time thinking about their investments, confident that their advisor is on top of things and is watching out for their interests.

And in still others, the value might be feeling good about the level of attention they are getting from their advisor and his or her team en route to achieving their goals.

Or it could be an intangible – I've learned in my time in the industry to never underestimate the importance of investors simply liking their advisor. Click [here](#) for a recent article on 10 things that drive an advisor's likeability.

Whatever drives value for you, the key first step is to be crystal clear about that – just remember that the value bar has gone up. What was perceived as value by clients yesterday won't necessarily be perceived as value tomorrow.

### **Delivering value**

The second question relates to how you deliver that value – today's skeptical customers say "talk is cheap" and demand concrete evidence to back up your claims.

Begin by summarizing all the time and money you spent on your business this past year – and divide them into three categories.

The first category includes those expenditures that are the cost of doing business; customers aren't prepared to pay the cost of keeping the lights on, so you need to keep these to a minimum.

Everything else falls into two categories – "good expenditures" of time and money that translate into clear perceived value for clients and "bad expenditures" that don't. Your goal is to maximize the discretionary expenditures that drive value and to minimize those that don't.

Here's a simple example: I talked to one advisor recently who labored for many hours over his monthly newsletter, determined to get the words exactly right – this was a major investment of time on his part.

Earlier this year, he initiated a Client Advisory Board, inviting eight of his best clients with whom he would consult. When he brought up his newsletter, the universal response around the table was "Who cares?" Few of the clients around the table paid much attention to it and none would miss it.

Rather than his own newsletter, almost all of his clients said they'd prefer to receive carefully chosen articles from credible, third-party sources.



This is a classic example of a “bad cost” – he was spending a significant amount of time on something that represented marginal value to clients.

Dividing everything you do into those three categories can be an arduous process – but it will be an illuminating one that will clarify how you can maximize the value you deliver clients.

### **Getting from here to there**

The last question relates to the pace of change.

It’s human nature to resist change – and even if we accept that change is coming, we often believe that it’s in the distant future rather than around the corner.

In *Origin of the Species*, Charles Darwin wrote: “It is not the strongest of the species that survives, not the most intelligent – but rather the one that is the most adaptable to change.”

Time and again, we’ve seen change crawl along agonizingly slowly – only to suddenly pick up pace and assume a life of its own. Consider how unrest about life in the Soviet satellites bubbled along beneath the surface for decades – only to surface in November of 1989, with the result that the former Soviet bloc collapsed almost overnight.

Or look at more prosaic examples such as the implosion of tech valuations in 2000 or the collapse of the American real estate market in 2007 and 2008. Many who made early bets got discouraged waiting for things to happen – and some lost their resolve. Even if you predicted the trend right, you had to hang in there waiting for events to take shape.

Chances are that the same will apply to getting the payoff from making changes to ramp-up your value and position your business for the future. That said, it’s better to be a year early than a week late. Just remember, the day you say that change is inevitable and it’s a matter of when not if, that’s the day that you need to be prepared for change to come faster and harder than anyone thinks possible.

Whenever you see changes coming down the pike at the magnitude we see today, there will inevitably be winners and losers. The only way to guarantee that you’ll be on the winning side of the equation is to be willing to embrace change by discarding the business models of the past in favor of the new business models of the future.

Painful as it might be to make that transition today, most successful advisors are still operating from a position in which their businesses are reasonably healthy and they have some flexibility as to how and when to make changes.

Once change starts accelerating, time is not your friend. In the words of French author Victor Hugo: “There is nothing more powerful than an idea whose time has come.”

If you wait, you risk being forced to make changes from a position of weakness with limited options ... as traditional powerhouses like the U.S. auto makers and retailers



such as Montgomery Ward discovered, while making changes today can be uncomfortable, it will almost certainly be much more painful if left until tomorrow.

*\* 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](http://www.strategicimperatives.ca).*

[www.advisorperspectives.com](http://www.advisorperspectives.com)

For a free subscription to the Advisor Perspectives newsletter, visit:  
<http://www.advisorperspectives.com/subscribers/subscribe.php>

## Other Articles by Dan Richards

### ***Client Communication***

[An Alternative Way to Conduct Client Reviews](#)  
[Building Personal Connections with Clients](#)  
[Communicating in a Sound Bite World](#)  
[Five Steps to an Effective Portfolio Review](#)  
[Five Steps to High Impact Client Meetings](#)  
[How to Consolidate Client Assets](#)  
[Lessons from the Loss of a Multi Million Dollar Account](#)  
[Listening for the ECHO in Client Calls](#)  
[Tackling Today's Number One Client Challenge](#)  
[The Power of Proactive Client Calls](#)  
[Thirty Seconds to Better Client Conversations](#)  
[Three Powerful Words in Client Conversations](#)  
[Three Ways to Inspire Clients](#)  
[What to Say When You've Said It All](#)  
[A Template for a Year-end Letter](#)  
[The Best Way to Thank Clients for Referrals](#)

### ***Investment perspectives***

[Behavioral Finance Traps En Route to Investment Success](#)  
[In Search of Unconventional Thinking](#)  
[The Case for Optimism](#)  
[The Pendulum Never Stops...](#)  
[The True Cost of Volatility](#)  
[Three Myths of Market Underperformance](#)

### ***Prospecting***

[A Prospecting Tip from Barack Obama](#)  
[A Wakeup Call for Advisors: Turmoil at the Top of the Market](#)  
[Becoming the Fall Back Advisor for High End Prospects](#)  
[Getting Prospecting into First Gear](#)  
[Tapping into Today's Number One Client Concern](#)  
[Tapping into Your Prospect's Hot Buttons](#)  
[The End of Prospecting](#)  
[Three Easy Steps to Effective Networking](#)  
[Three Steps to a Referral Conversation that Works Today](#)  
[Turning Corporate Downsizing into Prospecting Success](#)  
[Using Case Studies to Make Your Case](#)  
[Six Words that Open the Door to Accountant Referrals](#)  
[Competing for Referrals](#)

### ***Practice Management***

[Avoiding the Black Hole of Business Planning](#)  
[Cleaning up Messes](#)  
[Client Gifts that Stand Out](#)  
[Developing an Optimistic Outlook](#)  
[Lessons from Winning Athletes](#)  
[Structuring Your Day for Maximum Productivity](#)  
[Tips for Motivation in 2009](#)  
[Turning Intention into Action](#)  
[Work Smart by Building Thinking Time into Your Day](#)  
[A Lesson from Lawrence of Arabia](#)  
[Ten Tips to be More Likeable](#)