How to Tell if your Value Proposition Misses the Mark

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Advisors are focused on defining their value proposition. It's a worthy and necessary goal. The rise of less expensive robo-advisors, a shift towards index-based investing and the reduced opportunity to add alpha are all contributing to the urgent need to answer this question: How do you justify your fee?

The responses to this inquiry that I've seen generally fall into two categories:

1. Slogans designed to inspire confidence
2. Efforts to quantify the value you add

I find both approaches lacking. Here's why.

Slogans are unconvincing

In an effort to persuade clients that they add value, some advisory firms create slogans designed to convey the impression of a special relationship with their clients. These can range from simply stating "we care" to "dedicated to your success" and everything in-between. You can find an exhaustive list of financial slogans here. When you read them, put yourself in the shoes of a prospect. Did any of these slogans make you want to do business with the entity using them?

Slogans are often expressed on web pages, much the way a subtitle is set forth under the title to a book. Advisors try to associate the slogan with the firm.

Most of the slogans are unconvincing and self-serving. I agree with the views of Eric Swartz, a "sloganeer and branding strategist," who stated, "If a slogan appears self-centered and self-serving, it probably is."

Slogans that fit squarely within the "self-centered and self-serving" category are those that attribute abstract qualities to your firm, like lofty ethics, honesty, trustworthiness and caring. The basic problem with these slogans is that anyone can adopt them. They are often used by unscrupulous people as part of a fraudulent scheme. In one case, the SEC charged a trio of business associates in California with stealing investors' money while promising them "indestructible wealth." They also used this slogan: "Finances God's Way."

The fact that slogans can be so easily misused has lessened their persuasive power and made investors leery of them. While the right slogan still has a place in your marketing strategy, don't rely on it to establish your value proposition.

Efforts to quantify your value fall short

Perhaps the best publicized, most credible effort to quantify the value of advisors was a white paper authored by Vanguard. The paper concluded that advisors can add "about 3%" in net returns. It calculated this by quantifying the value of reduction in expense ratios, rebalancing, behavioral coaching, asset location and spending strategy (withdrawal order). It also noted the benefits of a suitable asset allocation and "total-return versus income investing," although it did not quantify those benefits.

Others have made notable efforts to quantify advisor value, complete with an impressive "hierarchy of advisor value."

While I applaud this work, it's more convincing to other advisors than it is to prospects. Here's why:

First, prospects get many of these benefits from robo-advisors at a lower cost. Not all of these benefits may be available currently from fully automated advisors (although they likely will be in the future), but "hybrid" robo-advisors, like those offered by Vanguard that include access to a qualified advisor, can easily provide them. Michael Kitces, director of research for Pinnacle Advisory Group, correctly noted that the Vanguard robo offering represents “a continuing threat to independent advisors.”

Second, the data doesn’t make an emotional connection with prospects. It’s too abstract and impersonal. It’s presented in a way that appeals to sophisticated advisors, but not to unsophisticated (and perhaps some sophisticated) prospects. It’s also complex and involves an extensive (and excruciatingly boring) presentation that is not likely to resonate with prospects.

A better approach

There is a better approach.

Recognize that you aren’t the right advisor for every prospect, and make no effort to persuade those prospects of your value proposition. You can’t compete with robo-advisors for certain (small) accounts. Why try?

Focus on building a relationship of trust with prospects and clients. Ask yourself this question: How many people have you met in your life that you would entrust your life savings to, confident they would always act in your best interest and continue to do so after your death? I suspect your answer is “not many.” That would be mine.

But in my coaching practice, I have met a small number of extraordinary advisors who meet this test. They share the same traits. They are people of unimpeachable integrity. They often give advice not in their economic interest, but always in the best interest of their clients. They put their clients in portfolios optimal for the clients, with no thought to justifying their fees. Their clients sleep at night, knowing their financial affairs (and those of their loved ones) are being handled by someone who doesn’t talk about “caring” for them, but proves it by her conduct every day.

These advisors don’t have to quantify their value proposition. The peace of mind they provide is priceless. Their clients know it and are happy to pay for it.

That’s the kind of advisor you want to be to differentiate yourself and establish your value proposition. There are no shortcuts.

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