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Client Segmentation and Its Impact on Growing Enterprise Value

A Facilitated Discussion with Three Successful Advisors



INVESTMENTS & WEALTH INSTITUTE®

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A FACILITATED DISCUSSION WITH THREE SUCCESSFUL ADVISORS

We asked three advisors to provide their insights about how they are focusing practices and serving clients through segmentation—identifying a specific type of client, then mastering the service and solution requirements to fully penetrate that client segment.

Doug DeGroot is founder and chief executive officer of DeGroot Financial, based in Westlake Village, California. His firm specializes in financial planning and investment management services for business owners, senior-level executives, and retirees.

Michelle Smith is founder and chief executive officer of Source Financial, based in New York City. Her firm specializes in financial planning, investment management, and financial literacy programs for divorced women. Her trademarked program and platform is Wife2CFO™.

Frank Zecca is managing director of OFS Wealth Management, based in McLean, Virginia. His firm specializes in providing financial planning, investment management, and full concierge services to professional athletes and their families.

Investments & Wealth Monitor editorial advisory board member Scott Welch, CIMA®, facilitated the discussion.

Welch: Please tell us a little bit about your background and your current business (size, client base, etc.).

DeGroot: I currently have roughly \$450 million in AUA [assets under

advisement], and approximately 65 percent of my clients are business owners, 20 percent are high-level executives, and 15 percent are retirees.

Smith: I've been in the financial services business since 1986, a financial advisor since 1989, and the owner of my own registered investment advisory firm since 2012.

I followed my mother into the business. She was in the middle of a divorce from my stepfather when I was in high school. At the time, a cousin of ours was chair of Merrill Lynch Government Securities, and he urged my mother to take her entrepreneurial nature, combined with her background as a schoolteacher, and head to Wall Street to be a financial advisor. This was the late '70s and women were a rarity on the Street.

My current assets under management (AUM) are approximately \$500 million. Our client base is primarily women who have become the chief financial officers (CFOs) of their lives after a divorce.

Zecca: I worked at KPMG after I graduated from college and then worked a year at American Express Bank. I played football and lacrosse at Middlebury College, and sports were always a big part of my life.

There was a lot of press about athletes going broke and I figured with my background in accounting and athletics I might be able to help. It was an underserved segment rife with sad stories of athletes being taken advantage of and going broke.

Not knowing how the business worked, I wrote letters to all the local professional teams in New York inquiring if they had programs to help players with finances. All went unanswered, but a few college friends worked at one of the top sports agencies in the world back in 1992. They were able to get me an interview in the finance department. As they say, 28 years later, the rest is history.

My team has always been focused on professional athletes. Everyone from the CPAs to the CFP® professionals concentrate on providing financial services to professional athletes, with only two exceptions. We will help the extended families of all our athlete clients; their families become part of our family. Second, and most important, is the retired athlete. About 30 percent of our clients are retired. We take great pride in the fact that we start working with athletes in their teens and they remain clients well into their post-playing days.

We currently manage approximately \$1 billion in AUA.

Welch: Each of you has segmented your business very specifically. Please tell us when and why you decided to do that.

Smith: I started specializing in divorce in the early 2000s. It was a perfect confluence of people and events that came together to point me in that direction, along with a nagging and continuous sense of being stuck at a certain level of AUA.

I had no focus. It was starting to get old starting every January at \$0 again, with no real focus besides “I want to pull in \$X million of AUA this year.” I had also been intrigued with all the largest producers in my branch offices. It was never “She does \$1 million in gross” without hearing “She does \$1 million in gross and she specializes in municipal bonds,” or “She does \$1.5 million in gross and she specializes in 401(k)s.”

And remember, back in the '90s, you were a big deal when you hit \$1 million in gross revenue. It seemed to me that the most successful advisors in any branch that I worked in had a product or a technical specialty.

Zecca: At the time I joined Octagon, the firm represented many athletes. My job was to prepare tax returns, pay their bills, create budgets, and basically to do all I could to support the agents in making the athletes' lives easier. The theory was, take care of everything “outside the lines” so the athletes could perform at their best “inside the lines.”

My first day on the job was following legendary tennis agent Tom Ross around the grounds of the US Open on an unbearably hot and humid New York City summer afternoon. We stopped and talked to everyone—players, coaches, tournament directors, other agents, you name it. He introduced me to everyone, and I was hooked. I have a great deal of respect for Tom. He was a huge help in my career development.

DeGroot: I decided to segment our business years ago. We have always focused on business owners, and I started my practice by walking around business parks at the end of the day, knowing that the owners would still be there. This allowed me to get past gatekeepers and meet the decision-makers.

Welch: What are the characteristics of your client base and what do you believe are their unique profiles and needs?

Zecca: In my mind there are two major challenges in planning for professional athletes. One is academic and one is holistic.

From the academic side, the money is typically made over a very short period of time and needs to last for a very long time. The average athletic career is less than five years and there is a 30-year gap before pension and other retirement benefits kick in. We all need to be very disciplined during the career to provide for post-career needs.

From the holistic side, we as advisors must gain a great deal of trust from the young men and women we serve. Without this trust, it becomes very hard to check all the necessary boxes of a sound financial plan.

From the holistic side, we as advisors must gain a great deal of trust from the young men and women we serve. Without this trust, it becomes very hard to check all the necessary boxes of a sound financial plan. The only way to generate this trust is by spending a great deal of time educating clients about subject matter that is very new to most of them. The good news is that the client base is very goal-oriented and takes coaching well. Knowing this and using it to our advantage certainly helps the financial planning process.

DeGroot: We deal with all types of business owners and high-level executives who have considerable wealth and complexity. Estate planning, transitions, continuity, and transfer of wealth and the business is very important. Tax-efficiency and titling of assets are also extremely important.

Smith: My client base feels overwhelmed. Frozen. Financially disorganized. These women believe they lack “the math gene.” They lack confidence and they are starving for information and a place to be able to get the knowledge they need in a way that makes sense to them. They are tired of feeling patronized and stupid when it comes to their finances. They often feel ashamed they didn't take control sooner or at the very least have financial transparency during their marriages.

Welch: How have you built your business to address the unique needs of your client base? What solutions and services do you offer that address their specific needs?

DeGroot: We are very process driven and take every client through our stewardship planning process, which is designed to help clients identify issues we must address or avoid as well as opportunities we want to capture or prepare for.

We utilize planning software, tax software, and business valuation and coaching processes for business owners.

Smith: My current crown jewel is my trademarked Wife2CFO platform. It includes an eight-week online course called “Design Your Destiny.”

After years—and scores of women asking me “What book can I read?” or “What course can I take?” (to learn about money)—it hit me that I was in the position to create the best course and platform. In short, I took my unique process and turned it into a product where women enter a sanctuary of sorts, to drop the shame, drop the blame, and get in the game.

Zecca: The value proposition of OFS is pretty simple: We are not guessing—this is what we do. We have focused on financial planning for athletes for more than 30 years and have experienced all facets of the business. Not many firms

have the history of working with athletes from before they earn any money up to and through retirement.

Also, we have built a business that is scalable, so the client experience is consistent whether the athlete is just starting out (with not much income) or a global superstar (making an eight-figure income). This creates comfort and is why we win.

Our focus is professional athletes, so the planning is based on understanding the career arc of a professional athlete. That arc may change depending on the sport and may change even further based on the client's position in the sport and talent level and pay scale. At OFS we understand each client's needs at different times and match the financial planning concept to the stage of a client's career. In the beginning, we may just be opening checking accounts and helping to buy a home. Then later we introduce investment concepts and then later still we start on estate planning and wealth transfer strategies.

Our relationships are very dynamic, and we aim to expand the financial plan as the relative wealth and understanding of the client develops.

Welch: When you sit down in front of a new prospect, what is your primary value proposition? Why do you win the business? When you don't win, why not?

Smith: My value proposition is now Wife2CFO. It speaks for itself. Educate yourself first. Pick your advisor second. Spend eight weeks with me and the community of women. Gain confidence to take control. Then interview potential advisors (including me).

It's one thing to force yourself to take a seat at the financial table and to have a desire to enter the financial conversation, but you can't stay at it or in it unless you understand the jargon. Women all too often prematurely look for an advisor

without even really knowing what they need. Do they need someone to help them with their budgeting? With technology and apps to help organize them? The investments are only a piece of the puzzle. And everyone does investments.

Part of the aha moment for women who experience my value proposition is coming to understand the difference between firms, advisors, and their services, how they are charged, what the team looks like, and whether the team is truly set up to cater to and deliver to their needs.

Zecca: Getting in front of potential clients has certainly evolved over the years. Early on, representing athletes was a concentrated business. We provided a great service, and the coaches, players, and sports agents knew who we were so the pipeline was more direct. Over the past 10 years, as the money in sports has increased dramatically, the space has become more crowded.

With that said, we still do it the old-fashioned way. It's a combination of research and outreach to young athletes with professional potential, referrals from the current client base, and, something I am very proud of, attracting clients based on OFS Wealth's brand awareness.

DeGroot: Our first meeting is what we call our "right fit" meeting. We want to make sure we can help and, if not, we want to make sure they land in a position that will help them.

We want to discover all we can about their unique situation, their causes and concerns, and the issues plaguing them or opportunities they hope to capture. We are empathetic and great listeners. We hope that our process creates the confidence they need to make sure they walk away from our meeting knowing we care and are very capable in helping them.

Welch: Please share with us a little bit about your branding strategy. How

do you get the word out that you are the go-to advisor for your particular client segment?

Zecca: We have been doing this a long time and have developed a strong reputation with centers of influence in the industry. Whether you are an athlete or an advisor, your brand is defined by who you surround yourself with. We are very lucky to have a highly respected client base and that says a lot about who we are, and it certainly helps us attract and retain clients.

Smith: My current branding strategy is a combination of three areas, equal-weighted cross all three:

1. Business to business: divorce attorneys, mediators, other professionals in the divorce space, anyone and everyone whom I feel I can or should sister-or-brother up with
2. Business to consumer: lead generation through targeted paid Facebook ads
3. A free webinar conversion strategy: I do monthly webinars for free where I give Michelle's Top 8 Curated Tips from the eight-week course in one hour, with the call to action being sign up for the course.

I am also currently very active in creating 2-3-minute video clips from my weekly Wife2CFO classes and pumping them out across social channels.

DeGroot: I developed an app called "Lunch With 4 Interesting People" and have trained hundreds of folks on how to facilitate meetings with discerning business owners, executives, and community leaders. I use it almost exclusively to build relationships and turn strangers into friends.

Welch: What are the biggest challenges you face in terms of growing your practice and serving your clients?

Smith: It used to be scale. Before I had the online course, everything had to be in-person with Michelle and there are

only so many people you can meet with or talk to that way. Wife2CFO is my scalable answer, finally.

DeGroot: I love to learn and am always intrigued with what others are doing to drive growth. I believe our biggest issue is always trying to streamline, outsource where we can, and scale where we need to. It is often a moving target as technology changes or issues from vendors and the government change (taxes, regulations, etc.).

Zecca: The biggest challenge is that this client base requires a great deal of touch points. We are speaking to our clients all the time, and many of them are young with little investment experience. Interaction and education are priorities for us and that takes time. There is never enough time. Thus, scaling the service model, embracing technology, and building out our team (internally and externally) needs to be at the forefront of our business plan.

From the client perspective, we need to constantly remind them to guard against

FOMO [fear of missing out]. Current media coverage could lead one to take on more risk than necessary to achieve the stated goals. For this client base, prudent decision-making and limiting losses in economic declines has to take precedence over swinging for the fences.

Welch: What advice would you offer to advisors attempting to build and develop a client segmentation strategy?

DeGroot: Focus on what you love. Plant your flag now. That flag may not be for everyone, but it will attract the ones you will be great at serving, and it will be the bedrock of your relationships.

Zecca: First, we as financial advisors have a massive responsibility when we take on a young professional athlete as a client. Given how this client base has been underserved and sometimes even taken advantage of, it's amazing that they remain impressionable and trusting to a fault. We owe it to them to be smart, patient, selfless, and willing to sacrifice our own goals to ensure that they are taken care of with the highest level of

fiduciary responsibility. Doing the right thing, every day, for a long time, will pay off.

Smith: Dig deep and thoughtfully. Figure out what you are naturally good at and what you enjoy most about your role. Make an Excel spreadsheet of your top 25 relationships and create additional columns for things such as how you obtained them, what characteristics and needs they have, anything else that can help your natural niche pop out when you sift through your top people and enter datapoints to show you your secret sauce and target market.

Welch: On behalf of the Investments & Wealth Institute and the *IWI Investments & Wealth Monitor*, I would like to thank these three professionals for taking the time to share their insights. ●

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