CHAPTER FOUR

Be clear about your target market

By the end of this chapter, your business will benefit from:

- ✔ A clear description of target market.
- ✔ A detailed understanding of target market
- ✔ A segmented client base.
- ✔ A clear link between client segments and services
- ✔ A shared knowledge of which clients are the most valuable.

This chapter is about concentrating on a part of the market where your expertise and service will excel, to the benefit of your target clients and the profitability of your business.

If you ask advisers to describe their target market, they will often say, "Anyone with money", "High net worth", "People over 40 years old" and "Everyone who is upmarket". While these descriptions give some direction, they are too broad and open to different interpretations. The more specific you can be, the more effectively you can tailor your service proposition. This will provide clarity and consistency both within the business and when you promote your services through marketing or networking.

It is good practice to have a core target market that is expected to sustain profitability into the longer term. In reality, a number of clients (typically up to 20%) may be outside the target market, but that is no great problem – if they like your service and are prepared to pay for it, why should you turn them away? However, you should always concentrate on your main target market and avoid dilution of your client base.

Many advisers have used the exercise of targeting to introduce a discipline in the business that clearly states who will be taken on as a client and who will not. In some cases, clients will 'self-select', particularly when service is well defined and prices are transparent. There is no doubt that this really concentrates the business on what it does and who it does it for, but you must be certain that the selected target market is viable and receptive to the service proposition.

TARGET CLIENTS are a group of people with similar characteristics who have predictable behaviours in a particular marketplace.

1 You can benefit from a clear target market

If a specific group of people regards your business as being specialist and understanding them, then you will have achieved a point of distinction that cannot be easily copied. No other adviser can come straight into your market and compete head-on. The advice market is not an easy place to build sustainable points of distinction, so concentrating on a particular segment of the market and delivering highly tailored advice and service is an effective way for you to achieve this.

To review where your business stands, ask your advisers to answer the following questions:

- Can all of the people in the business describe our main target markets?
- To what extent do we, the advisers, target the same groups of clients?
- Do we lose out collectively because we do not share the same target clients, or are we genuinely so different that we have to accept this?
- When was the last time we reviewed exactly what our target clients want from us?
- How close is our desired target market to our existing client profile?
- How good is our understanding of our existing client base?
- Is our target market viable and expanding?
- Will our target market be the same in five years' time?

Template 1.2 for Part 2 sets these questions out in a questionnaire for you to distribute to your advisers.

If you and the advisers have answered "No" to any of these questions, this chapter will help to improve your business and enable you to benefit from the detail on service design that follows.

Clear targeting increases profitability because:

- You can tailor your service and expertise to fit closely with what your clients need. This will give the perception of specialisation.
- You can streamline your processes and minimise variations. This will cut your costs and make your business efficient.
- Your marketing (networking, developing introducers, advertising, etc) can be specific in content and direction to maximise returns and minimise wastage.
- You gain a positive reputation in a particular part of the market, and enjoy the benefits of client recommendation and referrals.

CASE STUDY

Define the target and reap the long term rewards

Red Retirement Financial Planning (RRFP) is a very focused business. It was set up ten years ago to provide retirement planning services to the employees of companies exceeding 100 people. The research it conducted showed that people wanted a comprehensive picture of retirement to provide a context for the financial issues that were likely to arise. Health and time use were just as important as income and 'how long the money would last'.

The business put together two main propositions: the first was for in-house programmes for large firms, and the second was for open programmes to which smaller businesses could send their employees. The programmes were seminar-based, ran over three months, and included a full range of retirement issues as well as those referred to above. Specialists such as doctors and lawyers were used in conjunction with the financial advisers from RRFP.

RRFP used business directories to identify and target firms in a 50-mile radius, concentrating upon those with higher value employees and a positive attitude toward employee benefits, of which this service was one. With an aging population, the demand for this service and the financial planning that inevitably flows from it has increased steadily, particularly as RRFP has gained a reputation as a specialist in its field.

When asked why the firm adopted this approach, the managing director refers to other businesses that had successfully concentrated on particular parts of the market, such as will writing and trust planning, nursing home fees and education funding. She says, "We wanted to concentrate our efforts and expertise in one part of the market to really stand out – this market (financial planning) is so crowded that we thought a point of distinction would be really important. Our business figures suggest we made the right choice."

Claret and Blue Financial Services (CBFS) is owned by Euan Macdonald and Amanda Holland. Their current location is just off the high street in a town in the Midlands that is thriving less now than when they set up 25 years ago. CBFS has a shop front and, as the lease is running out, debate is raging about the importance of 'walk-in' business.

Euan makes the point that, "Anyone can walk in, they know where we are and if they have just won the lottery we are well placed to sort them out". He recalls the £500,000 case from ten years ago that "paid the rent for a year" from a client who had recently inherited two properties and needed advice.

Amanda is not convinced. She asks, "How many times have we spent an hour or more with people who are very genuine, but should really be in the Citizens Advice Bureau rather than in our office?" To make the point more firmly, she recalls the number of times they had discussed concentrating on "higher value clients" to make better use of their time and increase their profits. "Our problem is that we have a very laudable service ethic, which is to deal with whoever walks through the door, so look at our client bank built up over 25 years – over 15,000 names on a list, in files stacked from floor to ceiling, and only a few hundred really longlasting clients of good value, who we have never got time to deal with properly – not much to show for 25 years of hard graft!"

CASE STUDY KEY POINT

The benefits of concentrating on one part of the market can be significant in terms of streamlining, building up expertise and gaining a reputation that others find difficult to copy. This can be based around a specific need, such as the retirement planning example, or particular types of people in certain circumstances.

Where does your business stand between these two extremes? If it is close to Claret and Blue then, shop front or otherwise, it is never too late to change. However, the longer you leave it, the greater the problem will become and potentially the lower the value of your business.

2 Identifying and changing target markets

There are some important practical issues that will influence your approach to this. The majority of advice businesses have been around for at least five years, and many for much longer. That means that they have an existing client bank which will often be quite diverse, particularly if there have been acquisitions or high adviser turnover. As a result, there could be a difference between the selected target market for the business and the existing client base.

If this is the case for your business, it should not stop you identifying your core target market for the future. There are often circumstances where advisers and advice businesses will want to change direction and redefine who they really want as clients. It may take five years to change the profile of the client base, but if that enables you to shift to a more profitable client group then it is clearly worthwhile.

2.1 Evaluate your target market

In terms of identifying target markets, there are no right answers. So much depends upon the location and history of your business, as well as the capabilities and experience of your advisers. However, there are ways of evaluating whether or not your target market is worthwhile. You will need to answer the following questions (which are also set out in template 1.3 on the website):

- Can your target be clearly defined – particularly in terms of what it requires from you?
- Is your target viable in terms of numbers of potential clients and buying power?
- What is the range of products and services they are likely to buy from you, how often should you see them, and how much will they invest?
- Can you reach the target, either directly or through introducers? Will they be receptive to referring you to similar prospective clients?
- Will it be easy to communicate with them, and what methods should you use? Can you obtain lists of names and addresses, can you use their professional or business community, and do they respond to e-mail or prefer formal letters?
- Do you have the knowledge and capability to successfully attract and service this target market? If not, how long will it take to build up?

If you are seriously considering devoting time and money to developing a new target market, you should share these questions with as many colleagues as possible. By their nature, some of the answers are difficult to quantify, which means that well considered commercial judgement is necessary. An hour spent debating these questions and testing the depth of the answers will always be time well spent.

TARGET MARKETS must be

2.2 Examples of successful target markets

It is always good practice to be clear about your target market, and to make sure everyone in the business knows what type of person (or business) you are targeting. You will then secure the benefits of good targeting listed above.

However, the vigour with which you advertise, network and promote to a target market will vary, depending upon the life stage of the business.

For example, it may be that you have a mature and profitable client base, and have developed your firm so that 60% of new business comes from existing clients and the rest from recommendation and a small amount of marketing. If that is the case, you have achieved an ideal benchmark. Your client base is self-sustaining and profitable, and there is little pressure or need to identify and pursue new target clients.

However, if the business is at the start-up stage, you will need to identify the target market and work very hard in securing a share of it. In the early days, financial pressure often means businesses will accept a wide range of clients. You should avoid this, because it will save the time and complexity of reviewing and refining the client base at a later date.

Here are some examples of client groups that advisers have successfully targeted:

- **Specific professions:** doctors, dentists, lawyers, bankers, city traders, computer specialists, footballers and rugby players.
- **Business sectors:** information technology, sport, marketing and advertising, print and publishing, media and service industries.
- **Businesses:** often defined by sector as above, but also by size, number of employees, turnover and profit, recruitment policy (attitude toward employee benefits) and acquisition activity.
- **Life stages and life events:** pre- and post-retirement, mid-life (often linked with redundancy services), retired and older age, divorced, family providers, personal injury litigants, will writers and tax planners.
- **Very specific groups requiring a specific service:** pension scheme wind-ups, trustee investors, people with over £1m to invest, pension transfers and nursing home fees.

reachable, viable, sustainable and profitable.

2.3 Look for complementary target markets

Many advice businesses have more than one target market, although there are often links between them. Business owners and their employees are a common combination, comprising up to four sets of client needs, as demonstrated in the following chart.

As the chart shows, there are four different sets of needs, with the business owner having both a corporate and personal perspective. These can be summarised as follows:

- **Business owners:** corporate decision taker for pension schemes, additional employee benefits, group risk and key person cover.
- **Business owners:** private individuals for their own financial planning.
- **Senior employees**: financial planning.
- **Other employees:** scheme membership, straightforward advice and transactional services.

To satisfy these needs, you could easily develop three clear propositions: one which is corporate, another for 'wealth management' and a third for straightforward planning and transactions. These would all wrap together as a very cohesive set of services to discuss with the business owners or key decision takers.

2.4 Describe the target market as clearly as you can

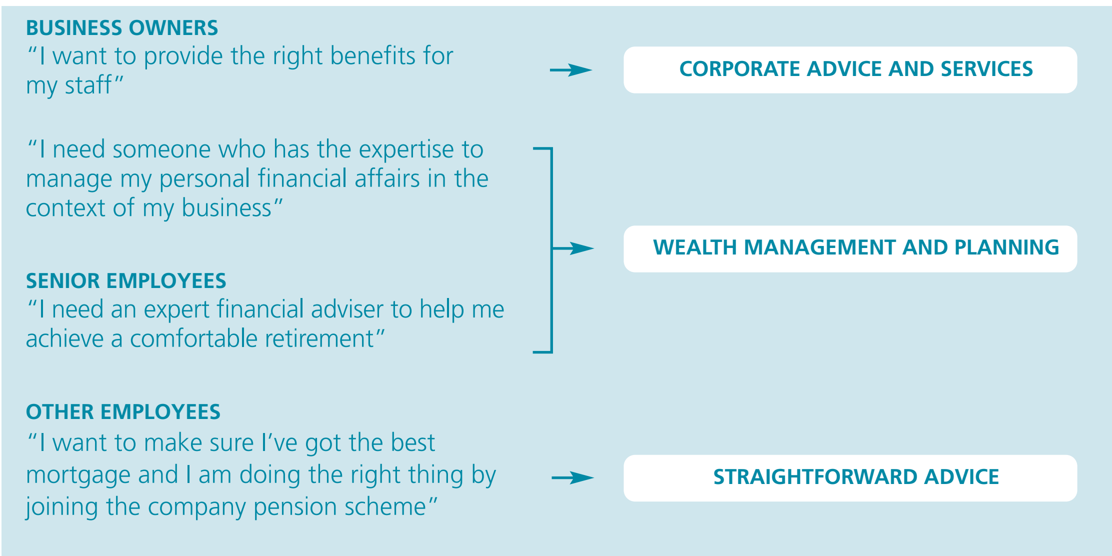
This is about writing down the description of the identified target market. At first glance, you may think this is not necessary – and if you have been advising for more than ten years, you may well feel that you know clients and their needs in great detail. However, you will achieve real benefits from a clear and detailed description, particularly when it is shared with others in the business.

Benefits from target market description:

- Shared understanding across the business of who the main target clients are.
- Concentration of service and attention on the target group.
- Rapid build-up of expertise and understanding across the business.
- Acts as a key benchmark to test that the business is on track to achieve its strategic objectives.

Complementary target markets

Fig. 4.1



FOCUS POINT Target Descriptions

'WEALTH BUILDERS'

Wealth builders are aged between 35 and 50 (when they tend to become pre-retirement planners) and are employed in senior management or professional positions. Their partners are likely to be working, often in similar level jobs, and their teenage children will be independently educated.

The total household income will be between £100,000 and £150,000, and there will be additional annual lump sum bonuses for one of the partners. This group will have a desire to retire early and the motivation to plan for it.

They will make large regular pension contributions, as well as lump sum investments; their aim is to build a sizeable retirement fund to sustain their standard of living.

This group will tend to be very busy, and will favour online communications (where relevant) and a businesslike approach to financial planning. They will want to keep on top of their investments, and will rely upon their adviser to make them aware of any tax or legislative changes that need to be taken into account.

They will expect to meet at least once a year and to be able to access the value of their investments online. From time to time, they will call or e-mail and will expect a prompt response, but they are unlikely to waste your time with trivial issues.

'PRODUCT BUYERS'

Product buyers will have straightforward financial affairs and will be valuable clients over their lifetimes, but there may be long gaps between direct contact and product purchase.

Their needs are driven much more by life stage and triggered by events than a long term financial plan. They will span the age ranges, and are likely to become clients for mortgages and protection before moving on to pensions and other one-off savings, such as ISAs. They want a reliable and local adviser who keeps in touch (often by bi-annual newsletter) and who will be around when they need him. They will tend to grow more anxious about their financial affairs as they pass 50, and pre- and at retirement advice will be extremely important to them. At this stage, they may have up to £100,000 to be dealt with and are likely to want 'peace of mind' for retirement with products and investments that are low maintenance.

Product buyers are not very demanding, and financial planning is a low priority for them, except when events demand greater involvement. They will not expect to see their adviser very often, and then only when there is a particular issue or product purchase to be dealt with.