Financial-Planning

**Trading Up: Consolidating your client base can help build your practice**
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Every year, Carl Fellhauer, an adviser based in Colorado Springs, Colo. takes an inventory of his clients. His top 20-the ones who can call him anytime-are in a class he calls "Lexus." The next group-those that still produce significant income-are in the "Infiniti" class. The third category, "Mercedes," includes folks to whom "we don't provide a great deal of service but are still worth keeping," he explains. Everyone else he puts in the "Trump" group-as in, "You're Fired."

Or take Linda Collier, an adviser near Seattle, who doesn't need to make a list when it comes to clients who can be difficult. "One client, I'll call him John, would come in and shout, We haven't done well enough!' especially when the market was going down," recalls Collier. "And I would console him, and that would go on for awhile, although my heart rate would go way up. But one day he was abusive to my staff. And that was the end for me. I went up to him and said, John, you will never ever talk to anybody in this office that way again.'"

Sooner or later, every adviser has to face the reality that certain clients must be dropped from the practice. The obvious candidates are fundamentally unpleasant people and those whose assets have declined below a minimum level. "We have three reasons why we fire people," says Fellhauer, founder of Trusted Financial Advisors: They're no longer paying clients, they're no longer coachable (i.e., they don't do what you tell them) or they have no future to be either paying or coachable. "If that's the case, they get the Letter," he says (see "Delivering the Bad News," page 72).

The benefits of releasing inappropriate clients are straightforward: You free up time to focus on existing ideal clients and to attract more ideal clients. And, you're likely to make more money, not less. Indeed, a study by CEG Worldwide showed that advisers earning more than $1 million in annual compensation had, on average, just 43 clients. Those earning between $250,000 and $1 million had 172 clients, while those advisers earning less than $150,000 had as many as eight times the number of clients as those earning more than $1 million.

So, how do you identify bad clients? It's quite easy, really. Make a spreadsheet. List every client's name, age, source, revenue, total assets, future referral potential, enjoyment you get from them and so on. Compare each client to your ideal client using these variables. Rate how well each client matches your profile on a scale of 1 (low) to 5 (high). It will soon become clear who has to go.

"Do they refer us to other people? Do they utilize our capabilities? Do they appreciate what we do for them?" asks Steve Ciepiela, president of Charles Stephen & Co. in Albuquerque, N.M. "We grade them. If they don't make the grade, we'll spend about six months trying to fix the relationship. If it's not fixable, I'll meet with them and say We're reviewing what we do for our clients and we don't feel that we are a good fit for you.'"

## LETTING GO, PEACEFULLY

The first option, which we don't recommend, is the so-called quiet file, a place clients go who are still a part of the practice but are never called. (Hopefully, they'll leave the practice on their own.) This option avoids confrontation-but is not a good idea. For one thing, these clients usually continue to demand time and energy disproportionate to the revenue they generate. Plus, they tend to be very poor referral sources. And this choice is bad for your psyche since you know you're not doing right by them and they're not getting quality service.

A second option is to transfer the account to another adviser in your office. This is popular among some advisers because you retain some control and financial benefit from the relationship. "When a client drops below a certain asset level, I send them a letter that introduces my associate wealth adviser," says Phylyp Wagner, founder of Wagner Resource Group in McLean, Va. He assures the client that he will continue to supervise the account, but the associate will handle day-to-day duties. "You don't come out and say I'm doing this because your assets are too low. I think that's kind of insulting." Wagner looks at his client list once a year and drops five clients. "If you do that every year, you'll find yourself becoming more and more involved with higher-end clients," he says.

The third option is to transfer or sell your non-ideal accounts to an outside adviser. "We had a client who was taking up a lot of time and second-guessing us. He ultimately became cost-inefficient," recalls Michael Fay, a CFP with Claremont Financial Group in Southern California. "So we showed him how to set up a portfolio similar to what we had and told him to go to Schwab and set up an account. Three months later, he did. He recognized that he was tying up a lot of time doing his own so-called research and so we helped him leave. That's the most diplomatic thing you can do."

Don't be sentimental. Just because certain clients were appropriate 10 years ago when you were starting out doesn't mean they fit now. It's no different from personal relationships that are no longer appropriate, like the college girlfriend who never outgrew the sorority. And don't think you're the only one who could serve these clients. There are plenty of advisers who would love to have new clients and who could do a good job. Still, "it's hard to fire clients," says Ciepiela, "especially if they're the ones who brought you to the dance."

## IMPROVING YOUR CLIENT BASE

Most advisers begin their careers by taking any and all clients to build their businesses. Gradually, they cull out inappropriate clients and focus on what's left-typically those that produce the best cash flow. An alternative approach is to identify the type of clients you'd like to have and go after them. This way, you can ensure that fewer clients will have to be released.

To replace clients, first come up with a list of attributes important to you, such as minimum dollar amount, industry, occupation, marital status and so on. Second, describe what type of financial challenge you want to become an expert at solving. You'll be able to get referrals much more easily if you're identified as a problem solver, not just an asset gatherer.

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