AUTOMATION GENERATION 2023

Unleashing automation: Attracting the next generation of investors

The time is ripe to invest in automation, data science and social media to fuel wealth business growth in the digital age.

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FinancialPlanning

Unleashing automation: Attracting the next generation of investors

Introduction

As the wealth management industry begins to experience the movement of $73 trillion in inheritances going from older to younger generations, commonly called the "Great Wealth Transfer," many advisors see both significant opportunities and challenges. On the one hand, the transfer of wealth means more potential new clients; on the other hand, inheritors could move assets away from the current wealth manager to another professional, or no professional at all.[1]

In the industry's preparation to shift away from serving boomers and Gen Xers to younger millennials and Gen Zers there's also an expected shift in how data, social media and automation tools will be leveraged to court, acquire and onboard these new customers. This is of particular interest, as wealth professionals have diverging views on how best to use these applications to prospect for and serve clients.

For many advisors, this is where they face a potential dilemma: Do they use tried-and-true traditional methods to prospect for more traditional clients, leading to a more immediate impact on revenue? **OR** do they focus on newer approaches to attract younger investors, likely impacting revenue further down the line but setting themselves up for future benefits and long-term growth? The good news is that there may be a path that uses automation, data analytics and social media to achieve success today and tomorrow.

The key to determining the best way forward may be: 1) understanding what the competition is doing with technology; 2) examining ways to implement best-fit technology in the practice; and 3) continuing to use historically successful strategies while looking ahead to the next generation of investors' needs.

Why read this report?
This research explores how the wealth management industry is prioritizing customer acquisition — in particular, younger customers. The report delves into how advisors are using data science and other automation technologies, as well as social media, to enhance their acquisition efforts.

[1] https://www.bloomberg.com/news/articles/2022-02-02/what-the-73-trillion-great-wealth-transfer-means-for-america-s-super-rich#xj4y7vzkg

Key findings

- Acquiring customers is a top investment priority for advisors across the industry. However, younger customers are not a primary focus, especially for smaller firms. Most firms are placing more emphasis on demonstrating growth today versus sowing the seeds for tomorrow's growth.

- Traditional methods top the list in how new customers are acquired, with referrals generating the bulk of new business. Considerably less emphasis is being placed on other sources of leads, such as advertising and social media.

- Few firms are aggressively leveraging data sciences to acquire new customers. More than three times as many advisors say their firms are not aggressively leveraging data science than those that are doing so. Large firms are three times as likely as small firms to be aggressive about this.

- Aggressive use of data science can help advance customer acquisition goals: Eight-in-10 firms aggressively leveraging data science report effectively advancing their goals for increasing the volume of leads/customers, measuring ROI from lead generation/customer acquisition activities and reducing the cost of acquiring new customers.

- Overall, there is low implementation of automation and data science technologies for customer acquisition at wealth management firms. Among those who have implemented these technologies, there is a distinct focus on the initial phases of lead generation and marketing outreach. The biggest barrier holding firms back from implementation is a lack of necessary skills.

- Social media is viewed as a critical tool for acquiring the next generation of customers with more than eight-in-10 respondents noting its importance in acquiring Gen Z and millennials customers. Overall, the top two areas where firms are most active in using social media are in advertising and for attracting new customers.

- Wealth professionals recognize that there is more opportunity to use social media as part of a customer acquisition strategy.

Research methodology

This research was conducted online by Arizent and Financial Planning in March and April 2023 among 220 qualified respondents in financial planning/wealth management. To qualify, professionals had to have knowledge of their organization's customer acquisition initiatives.

Respondents break out as follows:

AUM
28% – $1 billion or more
43% – $100 million to $999.9 million
29% – less than $100 million

Job level
23% – C-suite
21% – EVP/SVP/VP
15% – Senior director/director
20% – Senior manager/manager
21% – Non-management staff

CUSTOMER ACQUISITION PRIORITIES AND APPROACHES

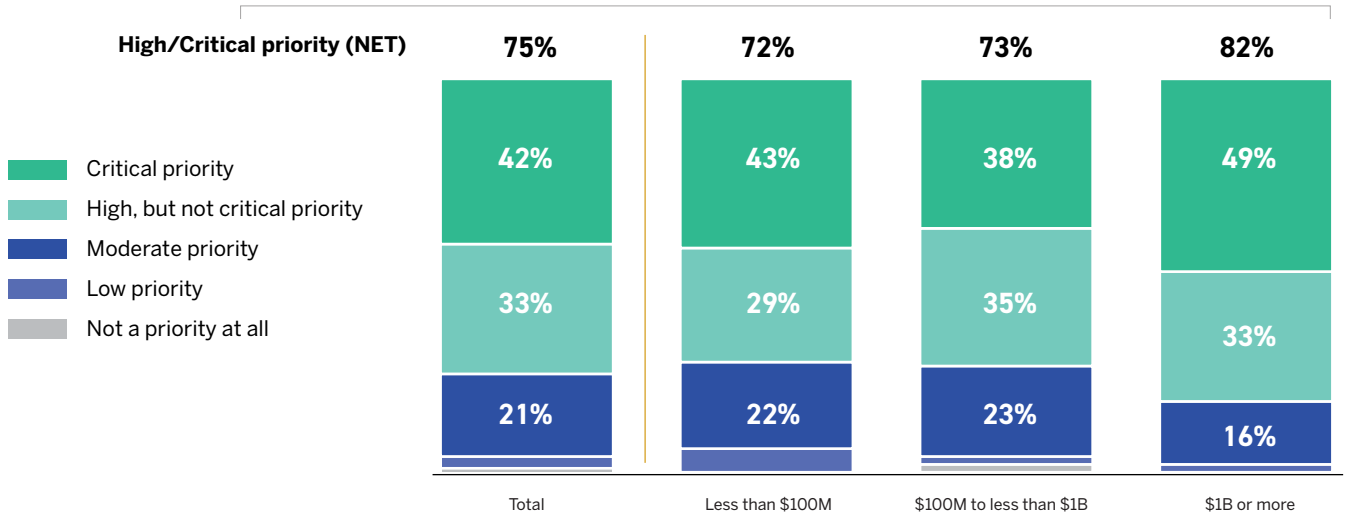
Customer acquisition is a top priority for advisors

Acquiring customers (and their wealth) is a priority for advisors and it's where they are focusing their investment dollars, no matter what size of firm they serve. For an industry always on the hunt to show positive expansion, this should be no surprise since new customers with sizable portfolios can immediately have a positive impact on both the firm's and the advisor's compensation. In other words, focusing investments on bringing in new customers speaks to the industry mantra of "constant growth."

Approximately three-quarters (75%) of all advisors surveyed list acquiring new customers as a critical or high priority for their organizations in terms of obtaining investment dollars, people resources and executive sponsorship (see Figure 1). There is one noticeable difference in this metric among different types of advisors: Employee advisors rate investments to acquire new customers a critical or high priority at 82%, versus 74% for fee-only advisors and 69% for commission-only or hybrid advisors.

Figure 1: Customer acquisition is a critical or high investment priority for most firms

Question: What level of priority does acquiring new customers have in terms of capturing resource investments (dollars, people and executive sponsorship) at your organization?



*Percentage(s) under 10 are not indicated

Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220; AUM less than $100M n=63, $100M to less than $1B n=96, $1B or more n=61

Younger customers are not a top acquisition priority, especially for smaller firms

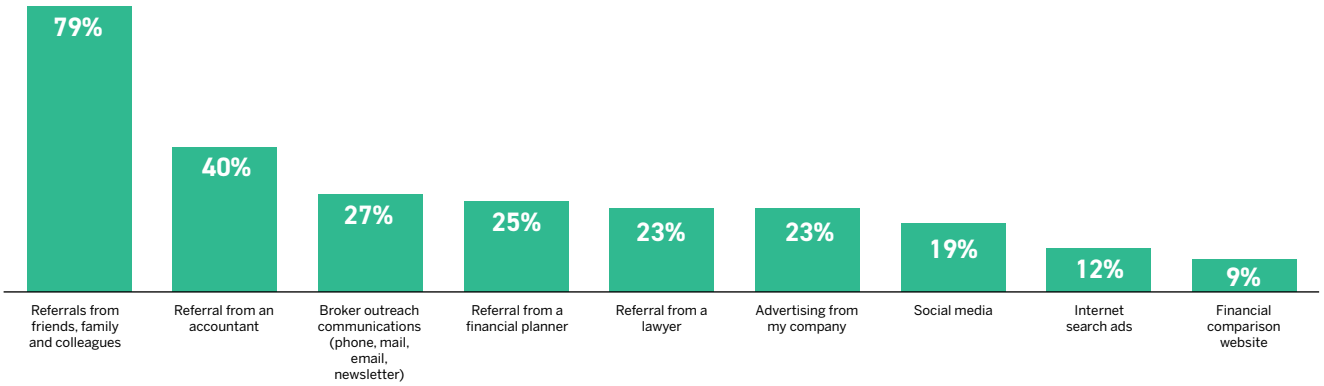
While prioritizing investment of resources to acquire new customers may be a critical or high priority for three-quarters of advisor firms, younger investors do not play a major role in most firms' customer acquisition strategies. When asked how they are prioritizing younger customers as part of their overall customer acquisition strategy, respondents at large firms ($1 billion or more in AUM) give a combined 50% critical or high priority rating. Among medium ($100 million to less than $1 billion AUM) and smaller firms (less than $100 million AUM), both each give a combined critical/high priority rating of only 30% for acquiring younger customers. This means that younger consumers are no more than a moderate priority to 50% of large firms and 70% of small and medium firms when it comes to customer acquisition.

> **"I think social media is so crowded that you need to use TikTok to get ahead and no one does that here."**
> —Senior business unit executive at an RIA firm

Traditional methods still top the list for customer acquisition

As for how firms are getting new customers, regardless of age, referrals — long an integral part of acquiring new clients — represent the bulk of new business being generated. Overall, the top source by a two-to-one margin over the second place source is personal referrals from friends, family and colleagues with almost 80% of advisors citing these compared to referrals from accountants at 40% (see Figure 2). The only non-referral source to crack the top five list of customer sources is broker outreach communications (27%), which include phone calls, emails, newsletters and direct mail. Newer acquisition methods of using social media, internet search advertising and financial comparison websites (such as Nerd Wallet, Lending Tree, Better and Mint) to generate new wealth customers are considerably less of a focus for advisors at this time.

Figure 2: Referrals dominate as the source of new customer acquisitions
Question: What are the top three sources of your organization's new wealth management accounts?



Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220

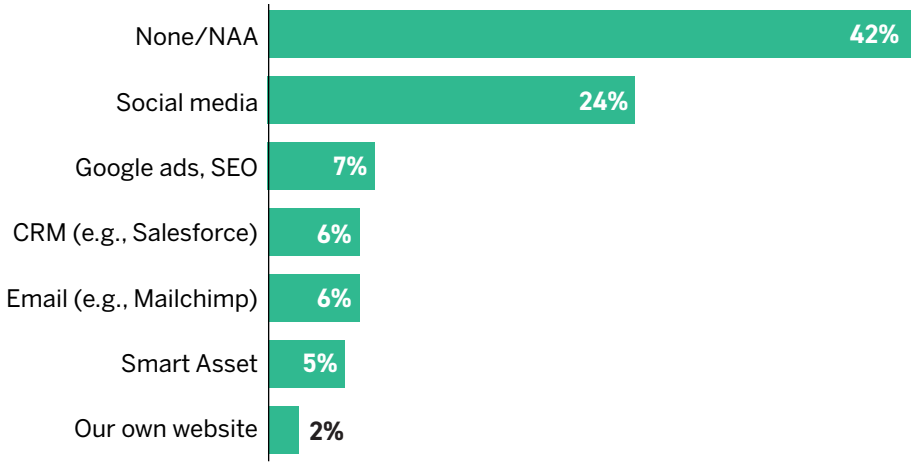
It could be argued that referrals are naturally a better source of leads, since they are considered "warm" and "vetted." Consider the example of an accountant referring a client to a particular financial advisor. Since the client trusts the accountant, he/she/they will be more likely to follow through on the contact and the advisor is likely to get new assets. The reality is that with curation and leveraging the right data analytics, social media and internet search ads can be just as effective in generating new clients if not more so, since these prospects are also in search of a financial advisory relationship.

Generating new leads beyond referrals remains unsophisticated and low priority

The lack of emphasis on non-referral sources for lead generation is regardless of whether those leads are acquired from third parties or generated using technology providers. Less than half of wealth professionals say their organization purchases leads from third parties and even then it's a relatively small proportion of all new leads. In fact, the total of new leads aquired from third parties ranges between 1% and 30% for most firms. with large firms doing this more than small ones (59% versus 43%).

About four-in-10 advisors do not use any technology providers or tools to generate new leads, acquiring them solely through networking, third parties or other advertising sources (see Figure 3). Among those advisors that do use technology for this task, the top resource is social media (e.g., LinkedIn and Facebook), used by nearly one-quarter of respondents. Other methods being implemented include internet advertising, email, CRM, etc.

Figure 3: Four-in-10 advisors do not use technology providers to generate leads
Question: Which technology providers and/or tools are you using to generate new leads, if any?



Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220

Word of mouth advertising is considered the most effective advertising tool

Given the overwhelming reliance on referrals to generate new customers, it should be no surprise that advisors believe their most effective form of advertising is through word of mouth. In ranking the top three most effective advertising methods, fully 80% of advisors list word of mouth, followed by social media (54%), digital search (37%), direct mail (21%) and digital display (15%).

There is one notable difference in responses by firm size with large firm respondents selecting 25% for traditional TV compared to 7% for medium and 3% for smaller firms. This is not unexpected as larger firms can more easily afford to undertake this medium. They typically have the advertising budgets needed and the support of experienced partners (e.g., advertising agencies, media buyers, etc.) who can lend their expertise in creating TV messaging and tracking performance and effectiveness.

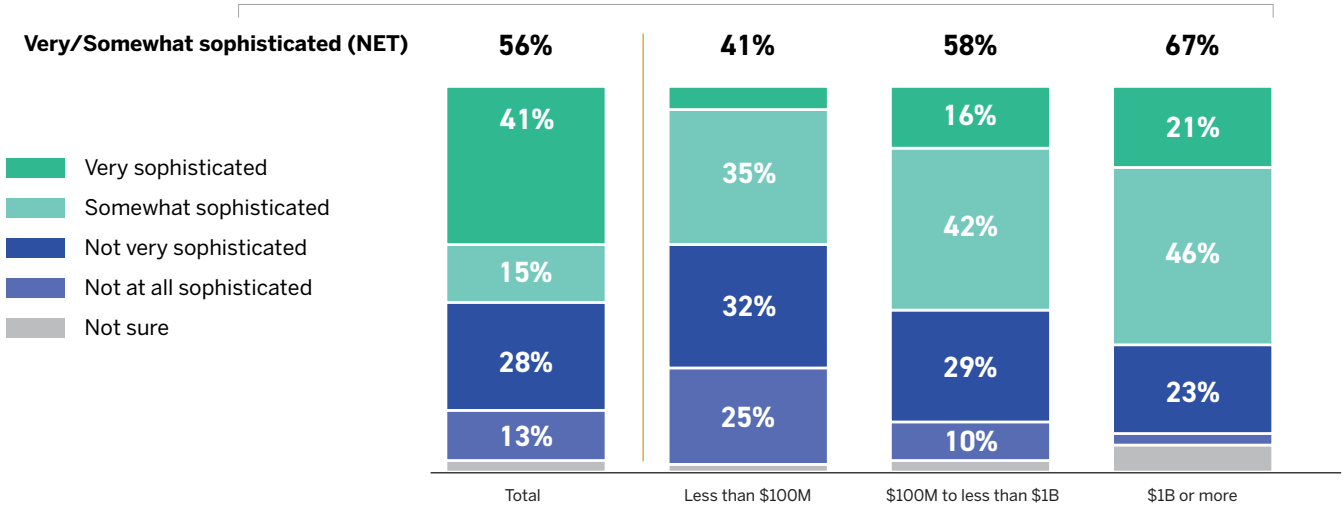
Measuring advertising effectiveness and targeting specific audiences are key challenges

There's an old adage that says "half the money spent on advertising is wasted, yet the trouble is knowing which half." For wealth managers, the "knowing" is a real problem: Almost one-third (30%) of respondents report being unsure if their organization measures advertising effectiveness, or that they don't do it at all or do it well. When advisors do track their advertising effectiveness the most used method is number of new leads or clients (28%), followed by feedback from clients or prospects (17%).

Part of the industry's challenge stems from the perceived lack of sophistication when using advertising dollars to target specific audiences. A little more than half of respondents view their firms as being sophisticated enough to understand and use targeted capabilities to reach the right audiences (see Figure 4). The issue of lack of sophistication is even more pronounced at small firms when compared to their larger counterparts.

Figure 4: Only about half believe they are sophisticated enough to reach the right audiences

Question: How sophisticated is your organization with understanding and using targeted capabilities to reach the right audiences?



*Percentage(s) under 10 are not indicated

Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220; AUM less than $100M n=63, $100M to less than $1B n=96, $1B or more n=61

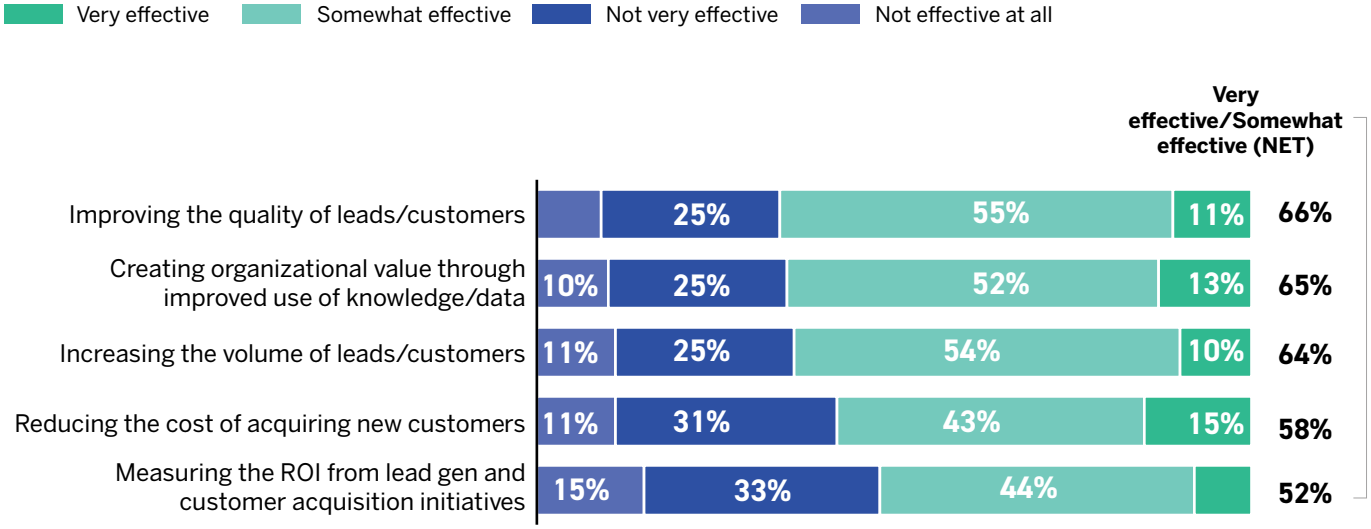
There are mixed results advancing lead generation and new customer acquisition goals

In examining how effective wealth professionals have been in advancing their lead generation and customer acquisition goals, the answer is only moderately. Respondents do report being more effective at improving the quality of leads versus measuring the ROI from lead generation and customer acquisition activities. Almost half of wealth professionals report that their firms are not very or at all effective at measuring the ROI of acquisition activities and four in 10 feel they are not effective in reducing the cost of acquiring new customers (see Figure 5). Just more than one-third of respondents (36%) say they are not effective at increasing their volume of leads and customers.

> **"We are just not doing much other than taking care of clients and hoping they will spread the word."**
> —Advisor at an independent BD and corporate RIA

Figure 5: Half report they are not effective at improving the ability to measure marketing ROI

Question: How effective has your organization been in advancing the following outcomes as it relates to new lead generation and customer acquisition?



*Percentage(s) under 10 are not indicated

Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220

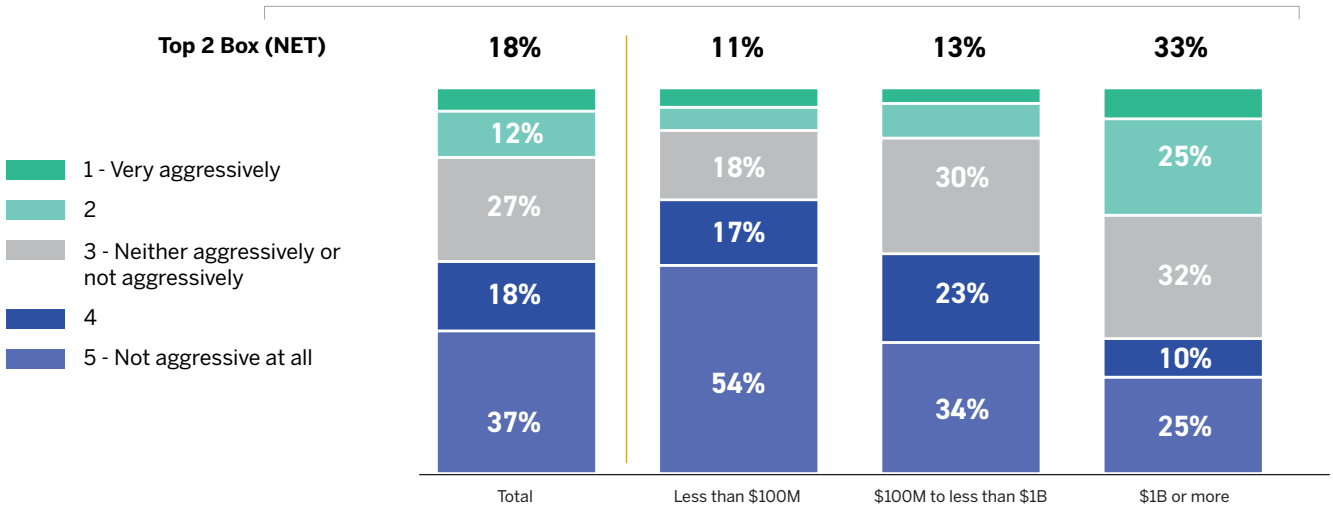
DATA SCIENCE ANALYTICS, AUTOMATION AND SOCIAL MEDIA UTILIZATION

Few firms are aggressively leveraging data science to attract and acquire new customers

One underutilized tactic that could offer a leg up for generating new customers is the implementation and execution of data science tools and analytics. As of this report, most firms are not aggressively using data science strategies – such as artificial intelligence (AI) and machine learning (ML) – for lead generation, customer acquisition or prospecting. Only 18% of respondents say their firms are aggressively leveraging data science for these purposes, versus more than 80% who are not. And right now large firms are definitely winning the data science war: 33% are agressively pursuing these technology versus their medium (12%) and small (11%) competitors (see Figure 6). These numbers point to a tremendous opportunity for firms to make better use of this increasingly advanced technology. Those that don't risk falling behind their peers and losing the client acquisition game.

Figure 6: Only 18% of firms are aggressively pursuing data science to acquire customers

Question: How aggressively is your organization leveraging data science approaches, including AI and ML, to mine internal and external data to create new leads, inform your customer acquisition strategies and/or conduct prospect outreach?



*Percentage(s) under 10 are not indicated

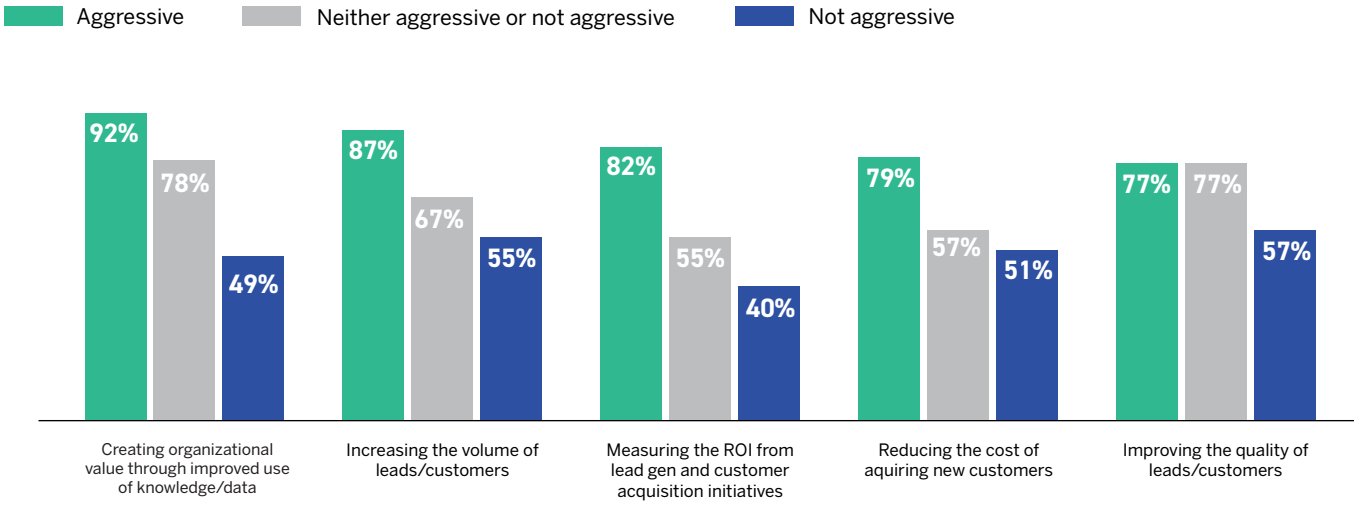
Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220; AUM less than $100M n=63, $100M to less than $1B n=96, $1B or more n=61

Aggressive use of data science can advance customer acquisition goals

One of the main benefits of actively and aggressively employing data science solutions is the potential to vastly improve customer targeting, prospecting and acquisition strategies and goals. Roughly eight-in-10 firms aggressively leveraging data analytics report that they are effectively advancing goals for increasing the volume of leads/customers (87%), measuring ROI from lead generation/customer acquisition activities (82%) and reducing the cost of acquiring new customers (79%) (see Figure 7).

Figure 7: Aggressive leveraging of data science can advance acquisition goals

Question: How effective has your organization been in advancing the following outcomes as it relates to new lead generation and customer acquisition?



Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Approach to leveraging data science to attract/acquire new customers — aggressive n=39, neither aggressive or not aggressive n=60, not aggressive n=121
Note: Only very/somewhat effective results shown

Even increasing the focus on data science analytics from a laggard status (not aggressive) to a middle-of-the-road level (neither aggressive or not aggressive) can result in benefits in improved outcomes. Middle of the road and aggressive pursuers of data analytics are both ahead of laggards in making progress on improving the quality of leads and new customers. And they are more likely than laggards to create organizational value through improved use of knowledge/data.

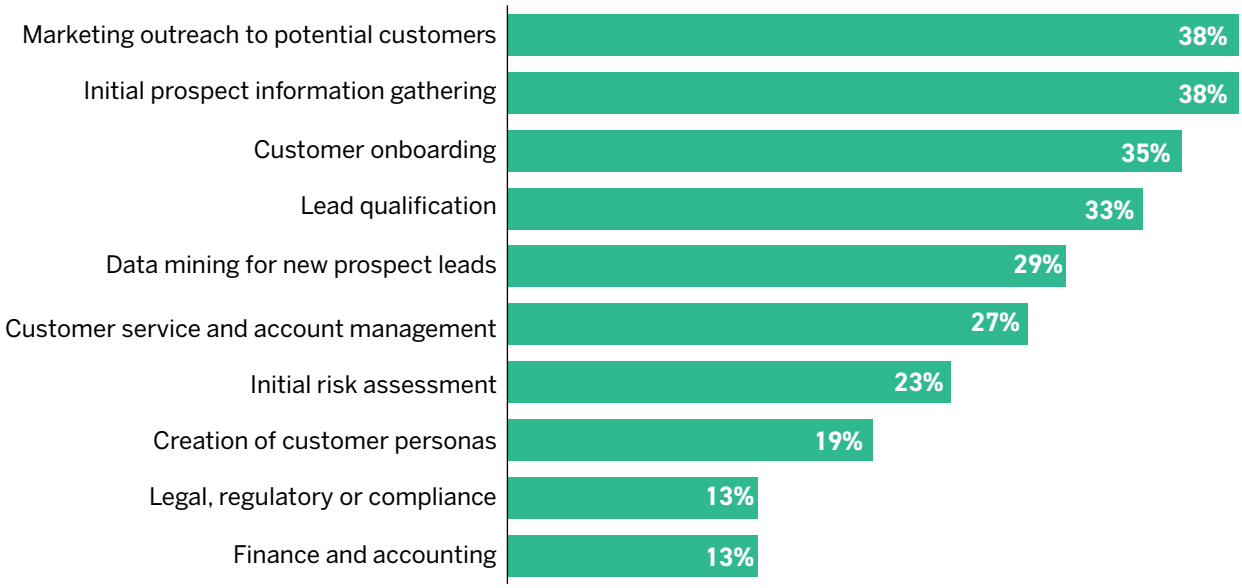
> **"We are very conservative — never leading always following."**
> —Employee advisor from a regional/other BD

There's low implementation of automation and data science for customer acquisitions

The numbers on those implementing automation technologies or data science approaches to advance lead generation, prospect or acquire customers are also low. only 22%. Those that are implementing these technologies are using them for marketing outreach, propecting and customer onboarding, among other things (see Figure 8).

Figure 8: Top areas of implementation are focused on lead creation and outreach

Question: Among implementers, which area or areas of the business have your automation and/or data science initiatives involved?

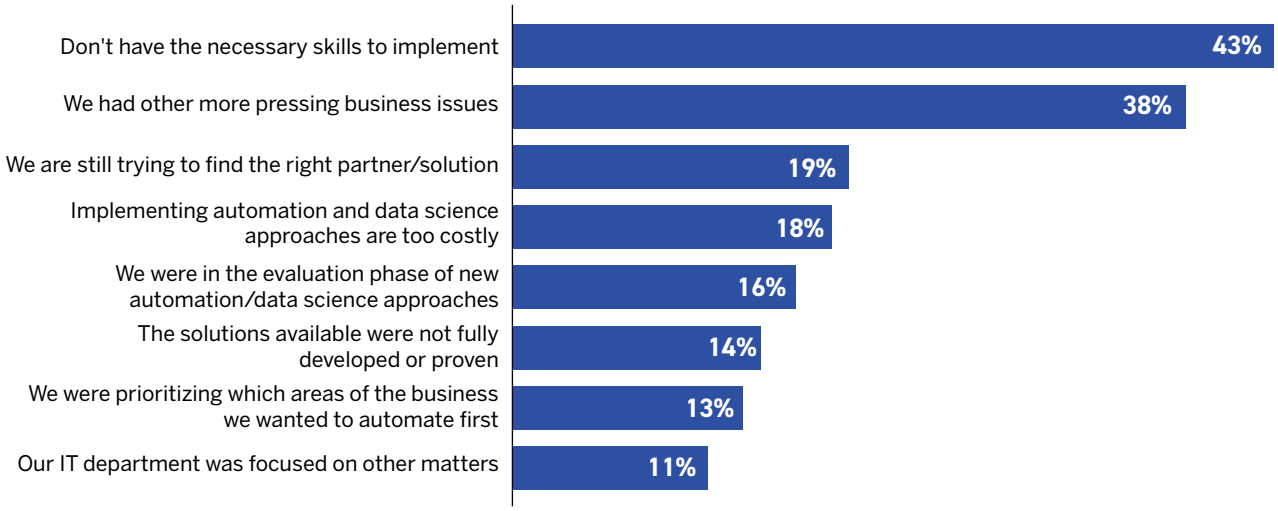


Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Has implemented automation technologies or data science n=48

For those respondents whose firms have not yet implemented automation or data science for things like lead gen, their No. 1 challenge is the lack of skills needed to do so (see Figure 9). Another barrier is more pressing business issues, which could point to any number of matters: regulatory audits or IT core modernization. Rounding out the top three reasons for non-implementation is that some firms are still trying to find the right partner or solution to help them with the process. The lack of a partner, coupled with the lack of internal implementation skills, signals a real opportunity for solution providers looking to work with these wealth management firms.

Figure 9: Lack of necessary skills is the biggest challenge to implementation

Question: Among non-implementers, Why hasn't your organization implemented any new automation technologies or data science approaches for lead generation, prospecting and/or customer acquisition?



Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Has not implemented automation technologies or data science n=140

Social media important for acquiring the next generation of customers

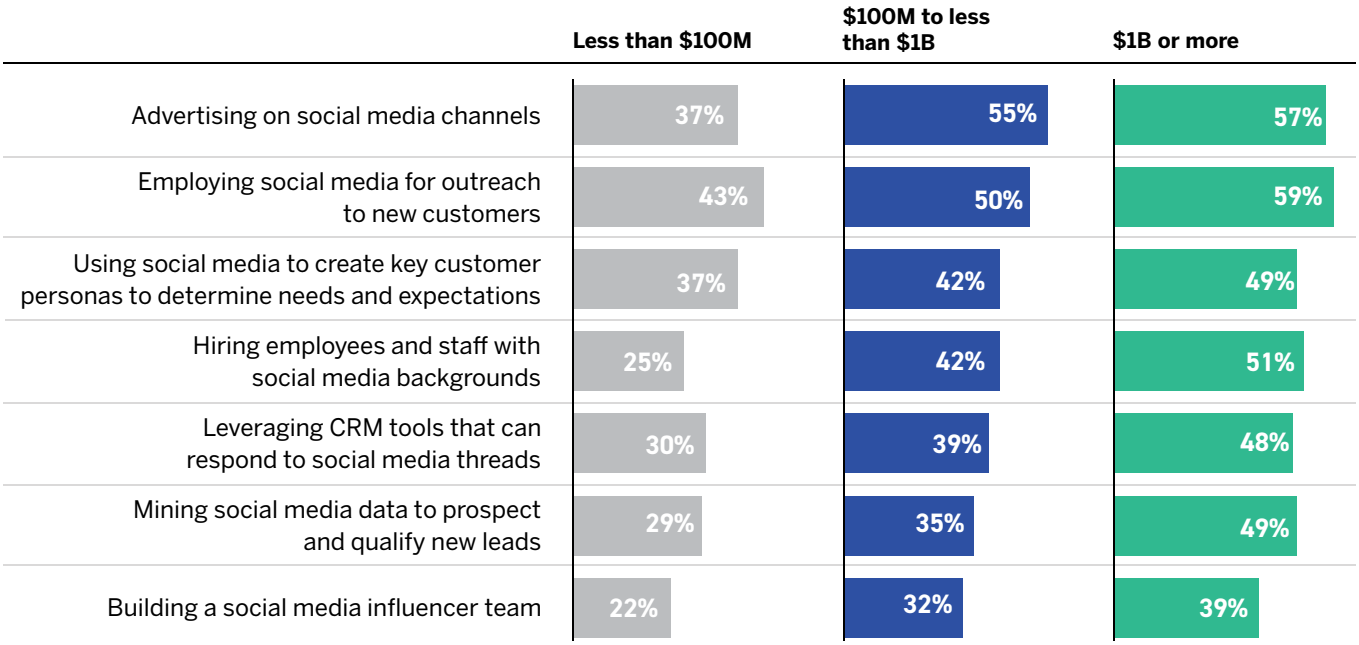
One lead generation tool that wealth managers are focused on is social media. More than eight-in-10 respondents believe that social media channels are very or somewhat important for acquiring the next generation of advisory clients, which breaks out as 81% for Gen Z (currently 18-26), 87% for younger millennials (currently 27-35) and 83% for older millennials (currently 36-42). Overall, the top two functions where firms are most active in using social media channels are advertising and outreach to attract new customers (this includes efforts conducted by individual advisors and their firms). Firms are least active using social media to build influencer teams.

There is a noticeable difference in active social media use by firm size, with large and medium firms using the channel more than small firms for advertising and hiring employees and staff with social media backgrounds (see Figure 10). Large firms are also more active than small firms employing social media for outreach to attract new customers, creating customer personas, leveraging CRM tools that can respond to social media threads and mining social media prospects to qualify new leads.

Despite existing usage of social media, especially among larger firms, wealth professionals recognize that there is more room to make use of the channel for for customer acquisition. Less than one-in-10 respondents see their firms as very successful in leveraging social media while less than four in 10 say they are somewhat successful in leveraging social media. In fact, more than half (56%) of respondents report that their firms are not successful in leveraging social media.

Figure 10: Larger firms are more active in leveraging social media

Question: How actively is your business pursuing the following actions?



Source: Arizent, 2023 Automation Generation Wealth Survey
Base: Total n=220; AUM less than $100M n=63, $100M to less than $1B n=96, $1B or more n=61

Conclusions

- Successful wealth management firms will need to balance the need for growth today (acquisition of older high-net-worth customers such as boomers) with the need for future growth among Gen Z and younger millennials — the ultimate recipients of the Great Wealth Transfer. This is particularly true for small firms that are placing less of an emphasis on younger investors than larger firms. Automation technology, data science approaches and usage of social media represent opportunities to more effectively deploy customer acquisition investments to meet goals for revenue now and in the future.

- While personal referrals remain a primary source of new customer acquisition, they also represent an Achilles heel for firms that have an over-reliance on them. If new, game-changing lead generation and customer acquisition technologies are not embraced, many firms could lose ground to new wealth fintechs and other firms aggressively making use of trends such as data science analytics and automation.

- With so few firms aggressively leveraging data science approaches to acquire customers, organizations willing to invest in their adoption could gain an advantage over their peers and other competitors. Firms can overcome key barriers such as the lack of necessary skills for implementation through effective utilization of technology and solution providers as well as partnerships with, or acquisition of, fintechs in the industry.

- Low levels of automation implementation for lead generation and customer acquisition also represent significant opportunities for those making use of these technologies and a significant risk for firms slow to implement them. While the industry remains in the early stages of the Great Wealth Transfer, over time there will be a greater need to rely on automation technologies for prospecting, acquiring and onboarding new, more tech-focused younger customers.

- Social media is widely recognized as an important tool for acquiring the next generation of investors (Gen Z and younger millennials), but few firms are actively using the channel either at all or effectively. Going forward, more emphasis will need to be placed on the channel and more dedicated resources will need to be devoted to it. Smaller firms should consider upping their social media game if they don't want to fall further behind their larger peers that more aggressively use it, especially as part of their outreach to younger investors.



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