UNIVERSITY OF MISSOURI – ST. LOUIS

2017 INTERNATIONAL BUSINESS CASE COMPETITION

Edward Jones: Who is the Client of the Future?

Case Introduction. As the populations of the United States and Canada have become more racially, ethnically, and internationally diverse, Edward Jones needs to develop a coherent and targeted strategy which will allow them to reach one of the core goals contained in their 2016 Five Year Plan: "Grow our impact in every region and market we serve". As the firm's Partners envision their future, strategies will need to change/adapt if Edward Jones is going to identify, attract, engage, serve and retain the next generation of clients.

We gratefully acknowledge the assistance of John Rahal, Principal of Market Opportunity Strategy, Jim Krekeler, Principal of Financial Advisor Career Development, and Matt Doran, Principal of Financial Advisor Training in the preparation of this case.

I. History and client engagement model

Founded in 1922 in St. Louis, MO, by Edward Jones, Sr., Edward Jones was built on the idea that client success comes from long-term relationships developed with financial advisors whose offices are in the neighborhoods and towns they serve. Advisors focus on understanding their clients and helping them achieve their financial goals. After extensive training, Edward Jones representatives spend their first several months in their communities making face-to-face contacts and building personal relationships with individuals and small business owners. This unique approach has served the company well – growth has accelerated over the last several years. In its first five decades of operation, Edward Jones had grown to include about 100 brokers mostly in the St. Louis region, but also in Kansas, Oklahoma and Colorado. In 1972, Ted Jones (Edward Jones' son) and John Bachmann embarked on an aggressive expansion plan: grow the firm to 1,000 offices. This strategy listed goals of becoming the best retail company in the United States, provide employees extensive training and improved onboarding procedures, expand Edward Jones' financial offerings, and implement a more refined compensation strategy.

In 1980, Edward Jones opened its 300th office and John Bachmann assumed the leadership of the company becoming the third Managing Partner. More rapid growth followed: the firm reached 1,000 offices in 1986. Currently, Edward Jones employs approximately 15,000 Financial Advisors (FAs) and has $1 trillion in assets under management. The firm serves over 5 million households with 11 million individual accounts. Continued growth is expected: Edward Jones' Managing Partner, Jim Weddle, has stated that the firm plans to have 20,000 financial advisors by 2022.

The current client engagement model is reminiscent of Edward Jones' Sr.'s original vision. Financial Advisors are entrepreneurs who are expected to grow their practices organically, one investor at a time. Their offices are in neighborhoods, strip malls, shopping centers and office complexes. Financial Advisors are still expected to engage prospective clients in the neighborhoods in which they work and live. They are encouraged to cooperate with one another, rather than to compete against each other, and to manage their offices as semi-autonomous small businesses. The Edward Jones home office, in turn, provides extensive support, and ensures that compliance requirements are met.

Financial Advisor performance is measured by their adherence to the idea of an "ideal client experience". This ideal client experience is closely tied to the values of the firm. The core values of Edward Jones are:

- Our clients' interests come first.
- We believe in a quality-oriented, long-term investment philosophy.
- We value working in partnership.
- Individuals and their contributions are valued and respected.

According to an Edward Jones publication, providing an ideal client experience requires that they continually address two questions (Waller, p. 13):

1. “Who is our client?”, and
2. “What is the value proposition we offer clients?”

The Edward Jones client is a “serious, long-term individual investor who values a trusted personal relationship and tailored financial advice, guidance, and service.” There are no investable asset minimums, and, while the firm has some extremely wealthy clients, many are in households defined as members of the “mass affluent:” – net worth is between $100,000 and $1 million. In other words, unlike many firms in the financial services industry, Edward Jones continues to serve relatively small investors, as well as large ones.

The Edward Jones value proposition is “delivering tailored financial advice, guidance, and service . . . through trusted personal relationships and a high level of personal service.” And, these relationships “continue as [they] help clients with tailored solutions to help them meet multiple financial goals.” (Waller, p. 13)

The current engagement model and growth strategy have proven successful for both the employees and clients of Edward Jones. Edward Jones ranks number five on Fortune 100’s best companies to work for in 2017 and has been among the top firms 18 of the 20 years Fortune has conducted the survey. (Source: http://beta.fortune.com/best-companies/)

Additionally, Edward Jones tied for second in the 2016 J.D. Power Full Service Investor Satisfaction Survey and ranked highest in the survey in seven of the preceding nine years. (Source: http://www.jdpower.com/press-releases/2016-us-full-service-investor-satisfaction-study)

II. Growth Opportunities

The current demographic shift underway in the United States and Canada represents both an important opportunity and a threat for Edward Jones. As members of the Baby Boom generation (born 1946-64) retire and/or pass away, their wealth will be transferred to successive generations. The Wall Street Journal estimates that a transfer of $30 trillion from Baby Boomers to Millennials (born 1980-96) has already begun. (See: http://www.wsj.com/video/preparing-millennials-for-a-30-trillion-wealth-transfer/BD7630BC-2A42-42ED-B921-51DFFE9F6F48.html). Given the complexities of the modern financial environment and the fact that the Millennial generation is even larger than the Baby Boom generation, this wealth transfer engenders a tremendous opportunity for those financial services firms who can attract and retain Millennial clients.

On the other hand, numerous observers have suggested that Millennials have very different views on many cultural, social, and financial issues than preceding generations. Among others, evidence suggests that they have very different attitudes about technology, work, leisure, and saving than their predecessors. They are more open to the use of technology and to diversity and inclusion in both professional and social relationships, and are more likely to form what had previously been referred to as “nontraditional” households.

With respect to diversity, the population makeup of the United States is likely to be very different going forward. The Pew Research Center reports that, while approximately 85 percent of the U.S. population was classified as “White” in 1960, by 2011 that percentage had fallen to 63 percent, and is projected to be 47 percent by 2050. Conversely, the Hispanic population of the U.S. is expected to increase more than eightfold over the same period, from 3.5 percent to 29 percent. An even larger (proportional) increase is projected for the percentage of Asian citizens: from .6 percent of the population in 1960, to 9 percent in 2050. This “internationalization” of the population suggests that financial advisors must be more attuned to a variety of cultural mores and attitudes than in the past.

Similarly, it is likely that a greater number of households in the future will be headed by singles, same-sex couples, and multi-generational families. Each of these brings unique financial characteristics and challenges, for which the financial advisor and her firm must be ready to address. In short, the financial services firm of the future must recognize and incorporate these changes as they seek to identify and serve the client of the future.

With these facts as a backdrop, Edward Jones has identified as major growth areas major cities with increasingly diverse urban populations. This suggests increasing emphasis on serving diverse and nontraditional households. For example, Edward

Jones estimates that in the Chicago area alone, there are 1.5 million households that meet the profile of a prospective client. In the Southern California market, that number is 2.95 million households.

III. Case question: How should Edward Jones identify, attract, engage, serve and retain the next generation of clients?

Taking into account the above information, Edward Jones is looking for a growth strategy targeted at a population which is quite different from its current base of customers. They are younger, have a nontraditional view of capital and careers, have grown up in the era of social media's cultural prominence, have differing perceptions of face-to-face interactions, have higher levels of education (which has also contributed to higher levels of debt), and are increasingly diverse.

IV. References

1. The First 90 Years: A Look Back, A Look Forward, by David Waller. 2012.
2. The Demographic Trends Shaping American Politics in 2016 and Beyond. The Pew Charitable Trust, 2016.
3. Understanding the Millennial Generation. Forecasts & Trends Newsletter, March 18, 2014.
4. Millennials. https://en.wikipedia.org/wiki/Millennials