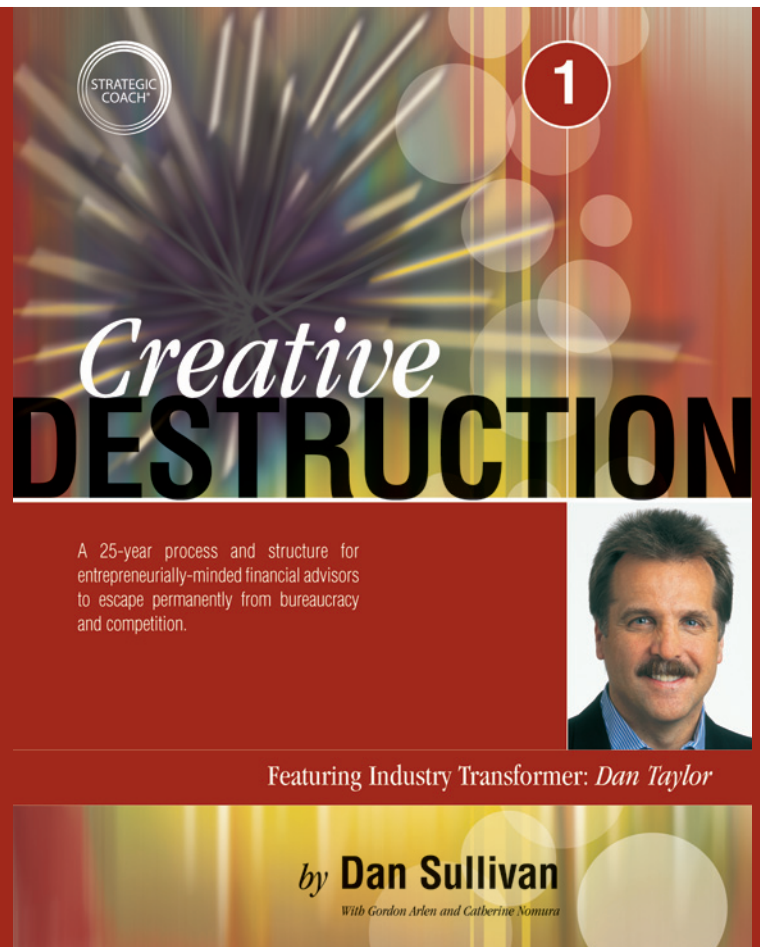




# The Twelve Predictions



Dan Sullivan's predictions for the future of the financial services industry.  
(From *Creative Destruction*, Module 1)

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*Excerpted from Creative Destruction, Module 1.*

I believe that if an author chooses to judge and criticize a troubled situation, intellectual honesty requires that he or she do three additional things. One, make clear-cut and measurable predictions about how the overall situation will evolve both in the short term and long term — and be willing, over time, to be held accountable for those predictions. Two, identify and highlight role models, that is, those individuals who are creating new solutions in response to the present problems and crises. Three, provide direction, tools, and resources for others who want to achieve growth and success as the situation evolves. Only when these three additional factors are present should the author's criticisms and observations be taken seriously.

So far, I have provided a series of judgements and criticisms about the financial services industry, along with analytical models to support them. In these next three sections, I will endeavor to satisfy the other requirements of intellectual honesty, starting here in Part 3 with my predictions. In this first module, I am going to lay out each prediction in a brief, general form. In subsequent installments, I will develop each prediction with data, documentation, and anecdotal evidence.

## **1. The financial services industry as a whole will increasingly become the target of lawsuits.**

Many parts of the legal industry have also reached the Depleted stage of The Industry LifeCycle. Technology, especially, has eliminated much of the profitable boilerplate billings that provided industry profits. Law firms are searching everywhere for new sources of large billings and contingency fees. Lawsuits, both individual and class action, are a promising solution. The two biggest targets in the tort industry's gunsights for the foreseeable future are food and financial services, for four reasons. One, both industries have unlimited numbers of consumers as potential plaintiffs. Two,

both industries are perceived to have deep, almost unlimited, pockets. Three, both industries' member corporations and organizations will settle out of court — quickly — to protect their reputations. Finally, both industries are represented by huge, impersonal corporations whose executives are seen to make extraordinary incomes — even when the corporations themselves are losing money and shedding employees. These make for the kind of fat and unsympathetic lawsuit targets that lawyers love.

## **2. Marketing policies, practices, and activities of financial services organizations will be increasingly governed by lawyers.**

Lawyers always work both sides of the street. If greater numbers of the profession are representing plaintiffs, greater numbers will also be working for the defendants. To protect themselves, the executives of financial services companies and organizations are increasingly doing the bidding of their in-house counsel and hired guns. Remember, this is what always happens in a Depleted Industry. The first strategy is to reduce legal exposure by doing nothing innovative. The second is to prevent financial advisors from doing anything outside of strictly prescribed guidelines. Financial advisors are reporting a quantum leap in legal warnings and prohibitions coming from head offices. All marketing ideas, materials, methods, and activities are subjected to batteries of legal scrutiny, approvals, and controls.

## **3. Every product and service of financial services organizations will become increasingly commoditized.**

The lawyers are forcing a "safety-first" conformity on all product and service development — as well as on all packaging and delivery. This conformity means that every product, service, and system quickly becomes a low-margin commodity. Financial advisors, as well as the companies them-

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selves, lose their ability to differentiate themselves. In essence, the companies begin to look like strictly controlled utilities, and the advisors like tightly-managed bureaucratic representatives, all offering the same thing.

### **4. Because of commoditization, fees and commissions paid for product and service sales will steadily decline.**

Commissions and fees to advisors have steadily declined over the past ten years — and most of that was during a bull market! The reason: commoditization of all products and services. The advisors themselves are becoming commodities, increasingly dictated to by gun-shy corporations and regulators. Many advisors, in attempts to soften the blow of falling commissions, have switched their compensation entirely to asset management fees, not realizing that these are also commoditized. It's estimated that when these fees drop from their current average of 100 basis points to 60 (which they will), 40 percent of fee-based advisors will be forced out of business within 12 months.<sup>1</sup>

### **5. The complexity and cost of being a commoditized financial advisor will steadily increase.**

As compensation has dropped for advisors, the complexity and cost of being in business is increasing. The biggest reason is that financial services companies are continually cutting costs by reducing and withdrawing support both for advisors and consumers. In order to create value for their clientele as a commoditized advisor, individuals must increasingly assume rising overhead costs. Unable to compete on the basis of commoditized products or services, more value-added services must be provided to retain client and customer loyalty. In a highly technological industry, this also requires continued investments in new equipment, training, and support personnel. While these costs are escalating, there are also increased expenses involved in compliance issues — both in terms of

non-productive time, liability insurance premiums, and of course, personal lawsuits. So far, trends indicate that when individual advisors are sued, their affiliate organizations protect themselves first, frequently abandoning the individual.

### **6. Financial advisors will increasingly be forced to make a career decision: Leave the industry, become a salaried employee, or become a privately-branded entrepreneur.**

Many financial advisors facing these pressures and dangers have become paralyzed. Their only strategy is one of hope: that things can't get worse, that the companies will always need and protect them. None of our research indicates this is true. Over the next five years, therefore, all financial advisors will have to decide on one of three career paths: first, to find opportunities outside of the industry; second, to become salaried employees within the companies; or, third, to leave the failing safety net of the companies altogether by becoming a privately-branded entrepreneur within the industry. The most innovative and enterprising advisors will increasingly capitalize on their experiences, skills, and existing resources and opportunities by opting for this third path.

### **7. The most innovative and independent advisors will transform their practices into Unique Processes in which they are able to charge for their packaged wisdom — and for the commodities.**

Taking the third career path requires special investment, work, and change on the part of an advisor — and usually about a three-year transition from being a commodity-based salesperson. The investment and work will involve creating a “Unique Process” that incorporates the advisor's unique approach to value creation into a multi-stage thinking system that is privately branded. Clients and customers will pay an upfront fee to go through this system, during which they are able to transform their sense of direction, confidence, and capability

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related to their futures. Invariably, commoditized products and services will be required to implement strategies developed within The Unique Process™. The change that financial advisors need to undergo to develop a successful Unique Process entails no longer seeing themselves as sellers of commodities, but rather as creators of intellectual capital. Hundreds of financial advisors have already developed successful Unique Processes, and thousands more will do so.

### **8. The financial services bureaucracies and regulatory bodies will try, but fail, to prevent entrepreneurial advisors from developing their own privately-branded Unique Processes.**

The best, brightest, and bravest financial advisors in all sectors will increasingly decide to develop their own Unique Processes™. Most head office bureaucracies, sensing a dramatic loss of talent and control, will use financial and legal means to prevent this exodus from their standardized structures and processes. Regulatory and political bodies will be asked to intervene to protect “the integrity of the industry.” Advisors will be threatened with lawsuits and loss of accreditation, but, in the end, these efforts will be to no avail. Over time, the most entrepreneurial individuals will opt for greater value creation, opportunity, success, and freedom. At the same time, some adaptable companies, seeing the handwriting on the wall, will transform themselves by developing strategic alliances with Unique Process™ Advisors.

### **9. Those financial advisors with successful Unique Processes will increasingly become immune to the forces of competition and commoditization.**

A Unique Process by its very nature — and with copyright and trademark protection — cannot be copied or duplicated by anyone else. The advisors who develop their own Unique Processes will, with one investment and one strategy, bypass all of the obstacles and frustrations caused by commo-

dization of the financial services industry. They will find, as they communicate with existing clientele and prospects, that they have little or no competition: Everyone else will still be trying to peddle commodities. Regardless of how the marketplace and industry change in the future, their Unique Processes, once established, will continually grow in depth, scope, value creation, reputation, and profitability.

### **10. The advisors with the most successful Unique Processes will be able — if they choose — to relinquish their licenses and escape from regulation.**

A growing number of advisors are discovering that their Unique Processes are in great demand in the marketplace. The reason is obvious: To an increasing degree, consumers are frustrated with the reduced value creation that is taking place in a Depleted Industry. Increased numbers of clients and customers are demanding what Shoshana Zuboff and James Maxmin call “psychological self-determination.”<sup>2</sup> That is, the ability to feel that they have greater ownership of their personal and financial futures. This is the last thing that any commoditized industry can provide. On the other hand, psychological self-determination is exactly what is provided to a growing number of consumers within the Unique Processes being developed by financial advisors. The demand for this kind of value creation is so high throughout the financial services marketplace that revenues from Unique Processes will convince many advisors to relinquish their industry licenses. They will have the best of both worlds: increased client satisfaction and loyalty, and no regulatory or bureaucratic obligations.

### **11. Financial advisors, through their Unique Processes, will innovate more and more fundamental solutions to economic, political, and social issues.**

The value creation that takes place inside of a

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Unique Process leads to surprising new opportunities and markets. Our experience so far with the several hundred financial advisors who have developed their processes, indicates that they not only satisfy fundamental financial concerns, but address issues in many other industries. In the complete version of *Creative Destruction*, Industry Transformer™ Dan Taylor demonstrates how his Divorce Mediation Program\* is not only a superior model for financial services, but also for the legal and counsel industries. This example indicates a trend that we are seeing with other Industry Transformers: Entrepreneurial financial advisors with Unique Processes are innovating fundamental solutions to economic, political, and social issues in all sectors of society.

## **12. The entire financial services industry in all sectors will be continually transformed and improved by the Unique Processes of innovative financial advisors.**

Over the next 25 years, increasing numbers of advisors with Unique Processes will create a general bypass of the reactive bureaucracies that make up a Depleted Industry. As these Industry Bypasses proliferate, many of them will provide the foundation for an entirely new global financial services industry, in which the psychological self-determination of consumers is the single most important organizational focus.

To order a one-year quarterly subscription to *Creative Destruction*, or for more information about this series or other Strategic Coach® offerings, call 1.800.387.3206 or 416.531.7399, or visit [www.strategiccoach.com](http://www.strategiccoach.com)

<sup>1</sup> "The Future of the Financial Advisory Business and the Delivery of Advice to the Semi-Affluent Investor," Mark Hurley, 1999, [www.undiscoveredmanagers.com](http://www.undiscoveredmanagers.com).

<sup>2</sup> Shoshana Zuboff and James Maxmin. *The Support Economy*. Viking; (2002)