AdvisorChoice℠ from Raymond James.
A revolutionary spectrum of affiliation options.
RAYMOND JAMES
Learn More >

Doing More With Less

By André Cappon

Jan 1, 2004 12:00 PM

Coming off a sustained period in which new customers were painfully hard to come by, it would stand to reason that financial advisors would have learned a thing or two about expanding relationships with existing customers.

But, according to my company's research, the down market has done little to improve the brokerage industry's dismal cross-selling efforts. In fact, we have found that customers of wirehouses and insurance companies on average consume only two-to-three products. Cross-selling rates track fairly closely with customer assets-under-management, but they are inversely correlated with producer productivity.

FROM A WOMAN WHO MADE IT TO THE TOP.
FROM A WOMAN WHO MADE IT TO THE TOP.

But fear not. There are some basic principles, which, when applied conscientiously, can help firms to take advantage of cross-selling's myriad benefits. And who wouldn't want to partake of those benefits, which include increased advisor payouts, “one-stop shopping” convenience for clients, improved customer loyalty and the “amortization” of client origination costs over several products (thus increasing the profitability of a relationship)?

What's the Trouble?

Cross-selling in the brokerage industry is failing because each of the three touch points in the process — the producer, the customer and the product — are aligned improperly. Let's take these touch points one at a time:

The Producer

Most successful producers only pay lip service to cross selling for a very good reason: They do not feel as though they have much incentive to change their current selling habits.

In dozens of assignments with securities firms and life insurance companies, my company has found that high producers become successful: (a) because they have mastered the art of selling a specific product, (b) because they have mastered an “application” (such as wealth transmission), or (c) because they have mastered a specific market (such as a professional or ethnic segment).

The most successful salespeople tend to be reluctant to learn about a product with an uncertain payoff. Further, they hesitate risking their credibility with established clients or with “affiliated professionals,” e.g. lawyers and accountants, who refer business to them.

It is thus difficult to reconcile the “narrow band” characteristic of the successful producer with the “wide band” needed to cross-sell. In fact, we have observed that cross-selling rates tend to be highest for “mid-level” producers.

Our research shows the top 10 percent of producers have a cross-selling rate of 1.6 products and the bottom 10 percent, 1.2 products. The middle 10 percent, meanwhile, rates a 2.1. (A “cross-sell rate” is defined as the number of products accounting for 80 percent or more of production.)

In recent years, many firms have sent producers “back to school” to be trained, among other things, to cross-sell more effectively. This approach might be effective for low- and mid-level producers, but the top-gun types are unlikely to embrace such training. A better tack for more experienced advisors is using teaming, in which advisors provide access to each other's

clients. The idea is that one advisor's specialization in, say, trust will complement another's in mutual funds, thereby creating extra business for both. It is important to note that teaming works best among senior, confident producers with mutually complementary expertise or between a senior and a junior. It rarely works among junior producers.

The Customer

Investment product purchases occur infrequently and are usually driven by "trigger events," such as changes in employment status, marriages/divorces, home purchases, births of children, inheritances and retirement. This means the window in which customers are in the market for products is relatively small, and they tend to buy the credible product offering.

The same individual producer could conceivably be "there" for the customer at all the right times, but usually only high-net-worth customers are deemed worthy of such effort. Thus, cross selling is unlikely to happen, unless the advisor's firm provides an environment that encourages customers to expand their relationships with incentives for bundled purchases. The firm also can help its advisors by deploying customer relationship management (CRM) technology to help them keep track of customer accounts and predict likely needs.

Citibank's CitiGold (a "quasi-private bank" for the mass affluent) has had some success with the incentive route. It offers a variety of freebies to convince clients to bundle products. Royal Bank of Canada is an example of CRM success. Leveraging the cradle-to-grave banking relationships fostered by its home country's concentrated banking market, RBC aggressively analyzes and distributes customer data to its employees.

Product

The most promising route to effective cross selling is by creating "infrastructural products," which provide opportunities for meaningful, regular contact between the client and the advisor.

American Express Financial Advisors, the largest financial planning sales force in the U.S., is perhaps the most aggressive adherent to this approach. Simply put, the company positions a broad product — financial planning — as its main ware, because it knows that planning clients buy more products. According to a presentation by Amex's Barry Murphy, "When a client does a plan, they open an average of 7 accounts compared to non-planning clients who open 2.6 accounts." Further, he noted, 74 percent of Amex clients stay with the company at least 10 years.

In addition to financial planning, "central asset accounts," which combine all of a client's investments with his credit, transaction accounts and credit card, are a powerful factor in enhancing cross selling.

Cross selling can be further stimulated by pairing or sequencing certain products. For example, equities can be teamed with covered calls, bond portfolios leveraged through repurchase agreements and lump-sum distributions of retirement plans connected to annuity purchases.

Writer's BIO:
>Andre Cappon is President of The CBM Group, a New York-based financial services management consultancy specializing in retail investment product distribution economics. www.thecbmgroup.com

Ten Ways to Build Cross-Selling

1. Establish financial planning as a firm-wide priority.
2. Develop products that will lead to larger relationships.
3. Offer customers incentives to consolidate their relationships.
4. Train advisors to understand products other than their main ones.
5. Teach advisors to recognize cross-selling opportunities based on a client's lifecycle and "trigger events."
6. Train advisors to understand "product selling sequences."
7. Encourage producer teaming and support it through compensation and other incentives.
8. Develop tools to help advisors focus on cross-selling opportunities.
9. Data mine and study your customers.
10. Apply a rigorous cost-benefit analysis to ensure investments in cross selling are economically rational.

Want to use this article? Click here for options!
© 2005, PRIMEDIA Business Magazines & Media Inc.