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# Okay, team, Listen Up!

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Pity the branch manager. Like any coach of a sports team, it is his job to train, motivate and manage. And, like other coaches, the branch manager inspires both love and, well, hate. Reps sometimes will state matter-of-factly, "I wouldn't be here if it weren't for him." But, in the next breath, they complain about the manager's constant scrutiny of their business.

After all, the branch manager is, in effect, the head cop of the branch, policing his office mates to make sure compliance rules are being strictly followed. The branch manager is the man — and, increasingly, the woman — who is entrusted with the care and feeding of a branch by corporate headquarters. Sometimes the reps in the branch and the brass in New York or St. Louis or wherever don't see eye-to-eye about business models. The BOM, in carrying out corporate policy, can sometimes be seen as an impediment to a broker's working life.

As one wirehouse broker said in *Registered Rep.*'s recent poll: "Sometimes, when you see him coming, you're like, 'Uh-oh, what have I done now?'"

## Made in Their Image

Whether some reps like to acknowledge it, the branch office manager is vital to the success of a given branch. In late January, *Registered Rep.* polled readers who identified themselves as branch managers of wirehouses, regional firms, independents, discounters and RIAs. What we found did not surprise us. It proved what other studies have found; that, quite simply, branches tend to pattern themselves in the images of their managers. Successful branch managers create "cultures of excellence" that breed superior trainees and attract top-tier producers from other firms. In short, for a branch to be consistently profitable, it's not, say, where a branch is located, but how good a branch manager is at doing his job.

Of course, a branch can only be as good as the producers who work there. So, it's all about getting and keeping strong producers. Or, as they say on Wall Street, A's hire A's; B's hire C's.

Our survey showed us that the best branches have the best managers, who bring in the best producers. But central to it all is training. And the key to successful training is known as the Pygmalion Effect. That principle was described in a famous paper published in 1988 by the *Harvard Business Review*, and it is defined as the mechanism whereby trainees excel in response to the coach's subliminal message that they are expected to succeed. Research has demonstrated that superior coaches are those that, having made an astute selection of candidates to supervise, believe in their trainees and communicate this to them. If the managers' expectations are high, productivity is likely to be excellent.

## Correspondent Quality

The chart on page 32 shows a good correlation between the quality of the branch manager and the quality of the reps. It shows that a branch manager who is a strong producer tends to raise the average production of the other reps in the office. This was true for all offices surveyed, but also held up when we broke out the results by business model (wirehouses, regionals and independents). Strong producers are positive role models for their colleagues, especially trainees and younger reps. Whenever a strong, self-confident producer acts as a producing manager, he or she will recruit and retain similarly motivated people.

Brokers in big city offices typically are too busy to manage their own book. ("My brokers are my clients," says Steve Dimodica, a Morgan Stanley manager in Greenwich, Conn.) But when they did, they produced more than their peers: $400,000 on average, versus $300,000 on average for regional firms, $300,000 for "financial planner" firms, and just $171,000 for managers of independent firms.

Wirehouse branches in our survey tended to have more reps on average (17) than all the other firms and, therefore, the lowest percentage of producing reps (47 percent of all branches surveyed). Independent firms had the highest percentage of producing managers, with about 73 percent of all independent branch manager respondents saying they still produced. But regionals averaged just 12 reps per branch.

"At a larger branch office, like this one, it's difficult to be a producer. We've got 30,000 households to work with and nine people to deal with all that," says Keith Huber, a branch manager for Schwab in New York City's Rockefeller Center. "In a smaller branch, it seems more essential that the manager be a producer, if not *the* top producer in his office. He has to set an example."

The branch manager respondents also indicated that wirehouses spend more money for support (direct costs averaged $1.7 million per branch office and $100,000 per producer). By comparison, regional firms averaged about $467,000 per branch office and $45,000 per producer in direct costs. Interestingly, the average payout rates for the two were about the same, 39 percent for wirehouses versus 40 percent for regional brokerages. It seems that this higher support per branch (and per broker) pays off: Wirehouse reps in our survey had wealthier customers ($129,000 assets under management per customer on average versus $120,000 per regional customer), and, consequently, more productive reps. On a branch office contribution margin basis (before allocated or central costs), regional firms edged out national wirehouses, with a net of 37 percent versus 32 percent. Independent firms were the least profitable, with a margin of just 14 percent.

Regionals and wirehouses also had by far the lowest rep turnover (an average 14 and 13 percent, respectively); independent firm turnover averaged 25 percent. Regionals and wirehouses had the lowest percentage of trainees in their branches, managers surveyed told us: only an average 9 percent and 11 percent, respectively.

**Ranking Responsibilities**

As for duties, branch managers for independents, not surprisingly, ranked recruiting, training and coaching as key areas of responsibility; discounters seem to place a relatively lower importance on these tasks. Managers of financial planning firms selected personal production as a top concern, reflecting the fact that this type of firm usually has small offices (average of seven° reps).

Interestingly, the wirehouse branch managers we interviewed complained about having to force their reps into wrap or fee-based business. Yet the respondents of our survey told a different tale: Wirehouses were far and away ahead of their rivals in actually doing it. About 20 percent of the average branch's business at a wirehouse was described as fee-based, while just 8 percent for regional firms and independents. Individual stock and bond sales accounted for the higher percentage of product mix at wirehouses and regionals (47 and 48 percent respectively) while individual transactions accounted for a mere 23 percent at independents, branch managers said in our survey.

The product mix differentials lead to wide variance in the median revenue as a percentage of customer assets under management. (Revenue divided by assets under management is basically a rep's gross margin.) At the low end come the discounters, which generate a median revenue of 0.15 percent assets under management. Wirehouses are in the middle of the pack, generating revenue 0.67 percent of assets under management. Regionals, financial planners, independents and bank-owned brokerages are a little higher, in the neighborhood of 1 percent of assets. This could mean that they are selling products with richer margins. Or their customers might not mind paying top dollar.

In the end, our branch managers told us that getting good people was their main goal (when they weren't bogged down by compliance matters, which, they complained, is threatening to overcome them). And, indeed, few would argue about the importance of training. Yet, the managers told us that it is a complex and lengthy process, and the lifeblood of any firm.

To view more data from our branch manager survey, please visit our Web site, www.registeredrep.com.