Second Quarter 2007

White Paper

Ideas Without Limits

Contents

Our partner in developing this white paper...

Key Drivers of Financial Advisor Sales Productivity

In our first white paper, *Attributes of Best Practices Bank Brokerage Firms*, we found that bank brokerages with the highest net income, relative to the size of their bank or credit union, had 58 percent greater financial advisor sales productivity than their bank brokerage peers. In our second white paper, we examine the attributes of those financial advisors, the factors that determine top financial advisor productivity, and how bank brokerage firms can emulate best practices.

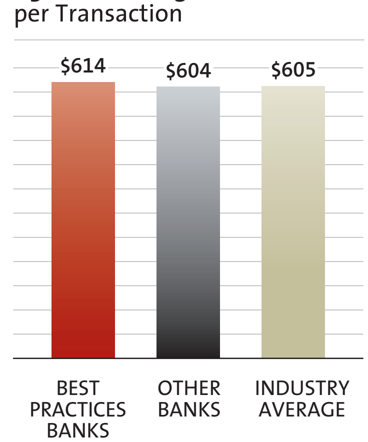
Impact of Productivity on Customer Penetration

Attributes of Best Practices Bank Brokerage Firms, which compared the firms in the top quartile of profit contribution per bank customer household, found that the average annual gross production of financial advisors in the most profitable firms was $385,810—58 percent higher productivity than the average for financial advisors in less-profitable firms. What are the sources of this higher productivity?

By deconstructing the impact of financial advisor productivity on customer penetration, we found that the average annual gross production of financial advisors in the most profitable firms was $385,810—58 percent higher productivity than the average for financial advisors in less-profitable firms. What are the sources of this higher productivity?

One possibility is that the more productive financial advisors are writing larger tickets. However, the average transaction size of financial advisors at firms in the top 25 percent of profit contribution per bank household is similar to the size of transactions in less profitable firms. [Figure 1]

Figure 1. Average Revenue per Transaction



If the transaction size between top producing financial advisors and their counterparts at other banks is similar, the top producers must be writing more tickets. Indeed, during 2005, the financial advisors in the best practices banks

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The average assets under management per financial advisor in the most profitable firms was $55 million, 61 percent more than financial advisors in other firms.

averaged 938 transactions, 31 percent more than their peers in banks with less-profitable brokerage businesses. In other words, the high productivity of the financial advisors in the best practices bank brokerage firms appears to be partly the result of handling a higher volume of business than less-productive financial advisors. [Figure 2]

Financial advisors in top-performing bank brokerage firms also manage more assets than competitors in other firms. In 2005, the average assets under management per financial advisor in the most profitable firms was $55.2 million, 61 percent more than financial advisors in the other bank brokerage firms. [Figure 3]

Figure 2. Transactions per Financial Advisor

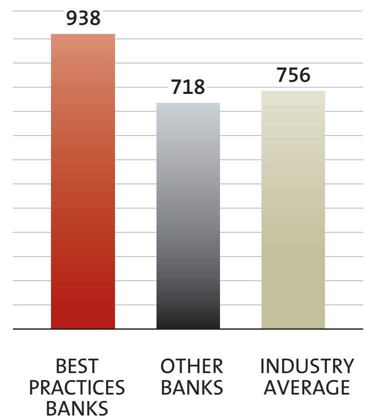


Figure 3. Assets per Financial Advisor (in millions)

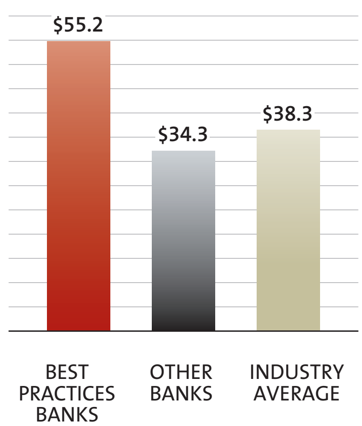
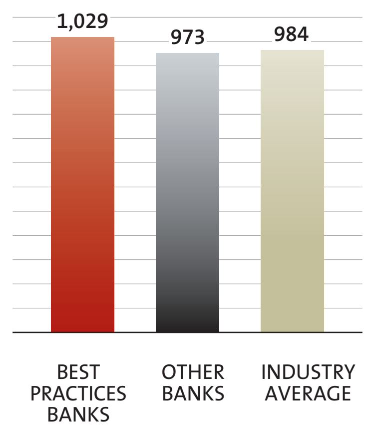


Figure 4. Accounts per Financial Advisor



Financial advisors in best practices bank brokerage firms manage about the same number of accounts as their competitors.

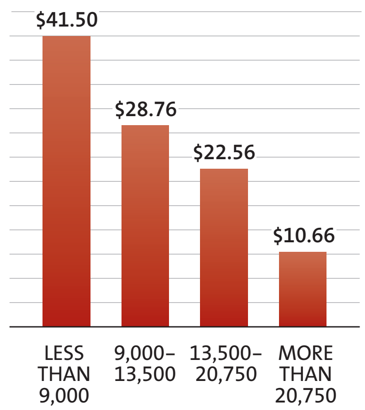
On the other hand, financial advisors in bank brokerage firms with the highest profit penetration of the bank customer base manage about the same number of customer accounts as their peers in other banks. [Figure 4]. The difference is the average account size, which was $53,644 in the best practices banks, 52 percent greater than in other banks.

One possible explanation for the large differences in assets under management and average account size is that the best practices banks have been in the brokerage business longer than other banks, and have had more time to build assets. Our research indicates that this is indeed the case. The average maturity of bank brokerage firms with the highest profit per bank customer household was 13.8 years, 1.2 more years than less-profitable bank brokerage firms. That means the average maturity of the best practices firms is only 9 percent more than other firms. If assets were to accumulate at a constant rate, year over year, the difference in brokerage firm maturity accounts for only 15 percent of the difference in assets per financial advisor—a 9 percent difference in maturity, divided by a 61 percent difference in assets per financial advisor.

Impact of Financial Advisor Coverage

In our first white paper, our research determined that bank brokerage firms with the highest profit penetration had 72 percent more financial advisors, relative to the size of the bank or credit union. Indeed, increasing financial advisor headcount systematically improves household revenue penetration. We dove deeper into this relationship by comparing the household revenue penetration of bank brokerage firms with different levels of household coverage, dividing the sample into quartiles of households per financial advisor. Banks in the third quartile of financial advisor household coverage—between 13,500 and 20,750 households per financial advisor—have more than twice the household revenue penetration of banks with thinner household coverage. Meanwhile, banks or credit unions with fewer than 9,000 households per financial advisor have brokerage revenue per customer household that is four times that of banks in the bottom quartile of household coverage. [Figure 5]

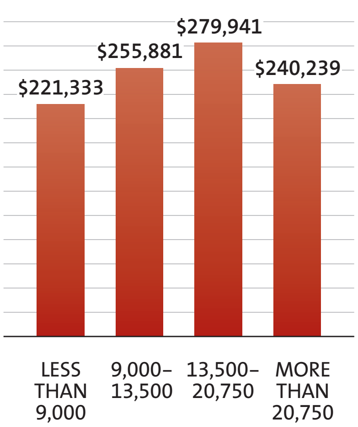
Figure 5. Impact of Household Coverage on Revenue Penetration



Increasing the number of financial advisors drives household revenue penetration.

Given the dramatic gains that result from adding financial advisors, why don't all bank brokerage firms increase their headcount in this area? While adding quality financial advisors is, of course, challenging, many firms are reluctant to increase coverage due to concerns that productivity will suffer, and financial advisors will leave the firm.

Figure 6. Impact of Household Coverage on Sales Productivity



Our research suggests that those fears are somewhat unfounded. If we examine productivity at different levels of household coverage, we see that average financial advisor productivity actually improves between the bottom and second quartiles of household coverage. While financial advisor productivity declines between the second and third quartiles, it is still higher than in the bank brokerage firms with the thinnest financial advisor coverage. Only at extreme levels of coverage does financial advisor productivity fall below the average level of bank brokerage firms with the thinnest coverage. [Figure 6]

Only at extreme levels of coverage does financial advisor productivity fall below the average level of bank brokerage firms with the thinnest coverage.

Some bank brokerage firms deploy their financial advisors according to deposit, rather than household, sales territories. The case for adding financial advisors is even stronger when viewed from a retail deposit perspective. Deposit revenue penetration grows even more steeply as a brokerage unit adds financial advisors, and average financial advisor productivity actually increases until a bank has less than $138 million in retail deposits per financial advisor. [Figures 7 and 8]

Figure 7. Impact of Deposit Coverage on Revenue Penetration

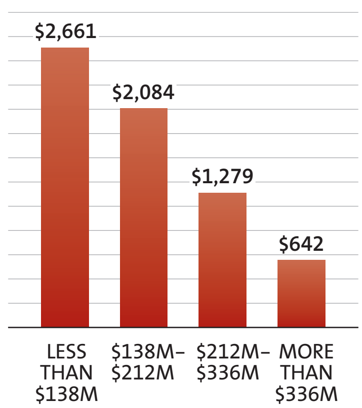
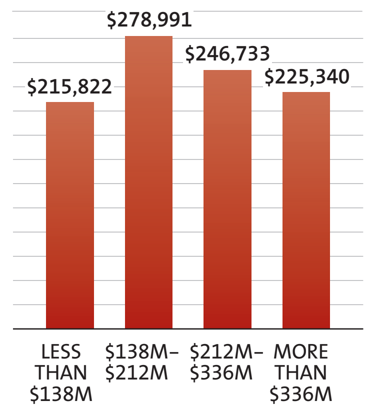


Figure 8. Impact of Deposit Coverage on Sales Productivity



Characteristics of Financial Advisor Productivity

Our previous analysis focused on characteristics of bank brokerage firms with the highest profit contribution per bank household. The current study examines the differences between financial advisors in the top quartile of average annual gross production and financial advisors in the other firms. It is important to note that the firms in the top quartile of financial advisor productivity are not necessarily in the top quartile of household profit contribution. In fact, only 40 percent of the bank brokerage firms in the top quartile of financial advisor productivity are in the top quartile of household profit penetration, and only half of the top firms in profit penetration are in the top 25 percent of financial advisor productivity.

One reason for this discrepancy is that top financial advisor productivity is not the only way to achieve best practices levels of profit penetration. One important method, identified in our first white paper, was to increase the financial advisor headcount relative to the size of the host institution.

The average productivity of financial advisors in the top quartile was $418,648, almost twice the productivity of their counterparts.

Best Practice Levels of Financial Advisor Productivity

The threshold for inclusion in the top 25 percent of average annual financial advisor gross production in 2005 was $327,175. But, in fact, the average productivity of financial advisors in the top quartile was $418,648, almost twice the productivity of their counterparts in other firms. How do these firms achieve these levels of production?

Impact of Referrals

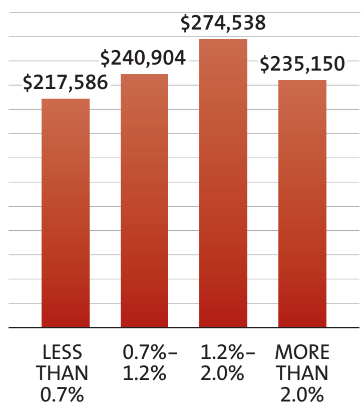
Our first white paper found virtually no difference in the number of referrals received by financial advisors employed by the most profitable bank brokerage firms and their less profitable counterparts. However, that is not to say that referrals do not influence productivity. In 2005, the bank brokerage firms with top financial advisor productivity received 215 referrals per year per financial advisor, or 30 percent more referrals per financial advisor than other firms.

Banks with the most productive financial advisors referred 54 percent more of their customers to their financial advisors.

One key attribute of the most profitable bank brokerage firms is the fact that the banking staff referred 28 percent more of their customers to financial advisors than other banks. Those referrals, of course, were spread among many more financial advisors. Similarly, bank brokerage firms with top financial advisor productivity also were in banks and credit unions with greater household referral penetration; their host institutions referred 2 percent of their customers to financial advisors in 2005, a 54 percent better referral performance than other banks and credit unions.

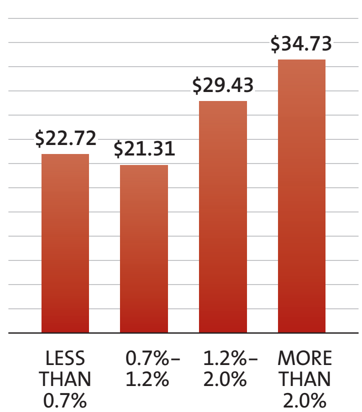
To examine the impact of referrals on financial advisor productivity, we again disaggregated the sample into four equal groups, this time based on the percent of the bank's households referred during the year. Financial advisor productivity improves with increases in household referral penetration until more than 2 percent of the bank's customer households are referred. The fall off in financial advisor productivity at the highest levels of household referral penetration may be because those banks do not have enough financial advisors to handle the referral flow. [Figure 9]

Figure 9. Impact of Referrals on Productivity



Nonetheless, high levels of referral penetration result in higher revenue penetration of the bank's opportunity. Examining the same quartiles by the percentage of the bank's customer households referred per year, we see that household revenue penetration is relatively flat below the median referral penetration of 1.2 percent. At higher levels of referrals, average household revenue penetration increases to 53 percent above the level achieved by banks and credit unions that refer less than 0.7 percent of their customer households per year. [Figure 10]

Figure 10. Impact of Referrals on Household Revenue Penetration



This again highlights that a focus on financial advisor productivity sometimes misses the mark in terms of attaining best industry practices. From an overall banking enterprise perspective, what matters most is the revenue that the brokerage firm produces, relative to the bank's opportunity, and how much of that revenue falls to the bottom line.

Impact of Sales Assistants

Our previous study found that, relative to the size of their respective host institutions, the most profitable bank brokerage firms were much more likely to use sales assistants. Among firms that used sales assistants, the best practices firms also had more sales assistants, relative to their financial advisor headcount, than was the case in other firms.

Bank brokerage firms with the highest financial advisor productivity deploy 34 percent more sales assistants, relative to their financial advisor headcount.

We find a similar relationship between the use of sales assistants and financial advisor productivity. Among firms that employ sales assistants, the bank brokerage firms in the top quartile of financial advisor productivity had one sales assistant for every 2.9 financial advisors, compared to one for every 3.9 financial advisors in the other firms. Thus, the firms with the best financial advisor productivity had one-third more sales assistants, relative to their financial advisor headcount.

The link between sales assistants and financial advisor productivity is confounded by the fact that many bank brokerage firms provide sales assistants to top producing financial advisors as a reward. Thus, we face a chicken-egg dilemma in understanding how much of the productivity difference is attributed to lightening the administrative and customer care load of the financial advisors, facilitating an increased focus on advising and selling, and how much of the productivity difference would exist in the absence of sales assistants. If half the average productivity difference between top-quartile firms and those with less productive financial advisors is the result of their use of sales assistants, bank brokerage firms gain over $100,000 per financial advisor by deploying a sales assistant.

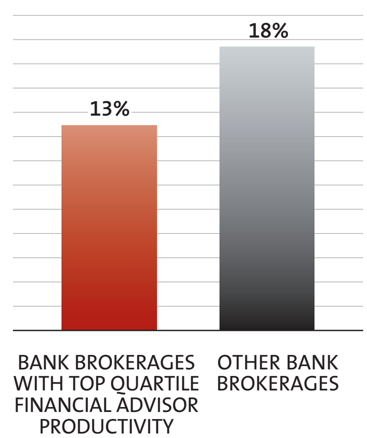
According to the *2006 Kehrer-LIMRA Financial Institution Investment and Insurance Services Compensation Study*, the average registered sales assistant earned $39,566 in cash compensation, while unlicensed sales assistants earned an average of $30,228. Since the firms with the highest financial advisor productivity deploy one sales assistant for every three financial advisors, the compensation expense is roughly $10,000 to $13,000 per financial advisor. By that calculation, adding more sales assistants appears to be a good investment.

Financial Advisor Turnover

The bank brokerage firms with the best average financial advisor productivity have 28 percent lower turnover.

The bank brokerage firms with the highest financial advisor productivity not only enjoy higher revenue, but they also experience much lower turnover. The annual turnover rate in the bank brokerage firms in the top quartile of annual average gross production per financial advisor is 28 percent lower than in other firms. Of course, some of the turnover in bank brokerage firms with lower financial advisor productivity may be involuntary, as those firms cull low producers. [Figure 11]

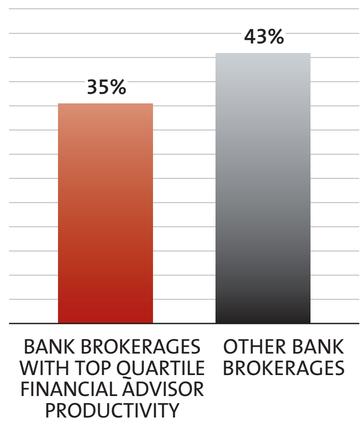
Figure 11. Annual Financial Advisor Turnover



Financial Advisor Payouts

The average cash payout for financial advisors in the bank brokerage firms with the highest average annual gross is 35 percent of gross commissions, 8 percentage points lower than the average payout in firms with less productive financial advisors. That amounts to a 19 percent lower cost of sales. Since the bank brokerage firms in the top quartile of financial advisor productivity also have much lower turnover, they are able to attract and retain top producing financial advisors while providing lower payouts than other bank brokerage firms. [Figure 12]

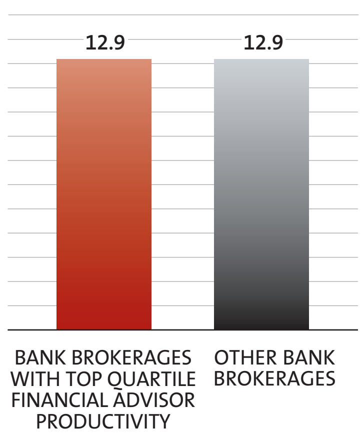
Figure 12. Cash Compensation as a Percentage of Gross Commissions (including trailers)



Involvement of Sales Management

These findings seem to point to the quality and quantity of sales management as a key factor in determining best practices. However, there is no difference in the span of sales management control between bank brokerage firms with top producing financial advisors and other firms. Both groups of bank brokerage firms deploy roughly one sales manager for every 13 financial advisors. [Figure 13]

Figure 13. Financial Advisors per Sales Manager



There appears to be no difference in the quantity of sales managers between bank brokerage firms with the best financial advisor productivity and others. However, the *quality* of sales management may be another matter.

Conclusion

Thus, it appears that the quality of sales management is a critical best practice. Managers in best practices bank brokerage firms are able to recruit and retain top producing financial advisors without bidding for them with higher payouts. Best practices sales managers are able to get their financial advisors comfortable with smaller sales territories, and also provide their financial advisors with a richer mix of sales assistant support, resisting ever present cost-cutting pressures.

While the size of transactions by the top producing financial advisors is about the same as transactions by their counterparts in other bank brokerage firms, the top financial advisors produce many more transactions and accumulate a much larger book of assets under management. This large asset base and transaction load might be why these top producing financial advisors appear to have a limit on how many referrals they can productively absorb, suggesting that best practices bank brokerage firms can further expand their sales forces, driving household profit penetration from the bank brokerage business even higher.

Appendix

Data. Bank brokerages have been participating in Dr. Kehrer's annual benchmarking survey since 1991. The survey examines sales and revenue penetration, product mix, sales force productivity, and sales management issues. Each year a large number of bank programs participate. For example, during 2006, 83 firms, which collectively account for over half of all bank and credit union investment sales, completed detailed questionnaires. The cumulative database provides a rich source of information to benchmark bank brokerages and analyze the determinants of top performance.

Methodology. First we select a measure of top performance. Then we compare the characteristics of the top performing bank brokerages with other banks to identify what sets the best practices banks apart.

Using the 2005 benchmarking data, we identified the bank brokerages that were in the top quartile in profit contribution per bank customer household. Then we compared those banks with bank brokerages that were not in the top 25 percent in household profit penetration to see how they are different.

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