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# **TIERING DELIVERY AND SERVICE LEVELS TO MEET MARKET NEEDS**



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Executives responsible for running investment and insurance sales operations in banks and credit unions are facing the biggest challenge of their careers. This challenge is due to three concurrent factors; fiduciary pressure, revenue compression, and the commoditization of advice. These factors have caused many firms in our industry to initiate reengineering efforts to avoid obsolescence.

This white paper will offer insights on why and how financial institutions should consider moving away from the antiquated retail investment service models in place now and towards entirely new and modern service models of the future.

Read on to get a clear understanding of the challenges of our industry's current service and pricing models for investment programs and the solutions to right size your service model. With the right game plan, it's possible to better manage customers' expectations, serve their needs and better support financial advisors and your institution with sustainable pricing models.

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## IN THIS WHITEPAPER

**YOU WILL LEARN HOW TO GET STARTED WITH ACTIONABLE STEPS TO BUILD A TRIAGE APPROACH THAT MATCHES EVERY CLIENT'S NEED WITH THE RIGHT SERVICES.**

**YOU WILL GAIN INSIGHTS INTO THE DIFFERENCE BETWEEN DELIVERY TIERS AND SERVICE LEVEL TIERS.**

**YOU WILL ACCESS A BLUEPRINT TO ADDRESS THE CHALLENGES, THE SOLUTIONS, AND THE RIGHT STEPS TO OPTIMIZE A MODERN SERVICE MODEL IN YOUR INSTITUTION.**

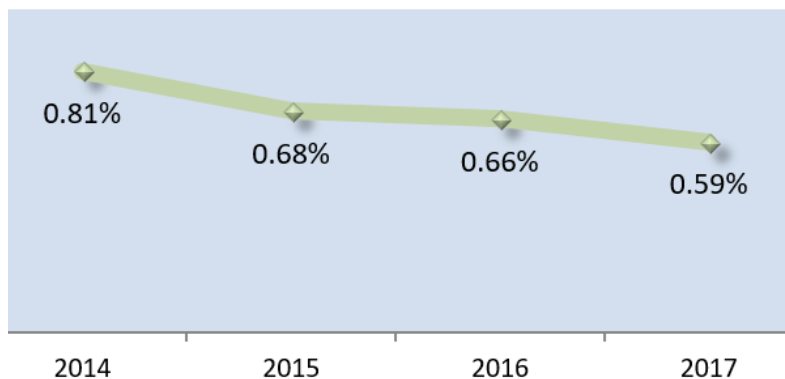
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# CHALLENGES

## 1. DOL is DOA but fiduciary pressures are here to stay.

Sounds like a jingle, but that's the reality. One result is a revenue compression trend. Investment programs at financial institutions are generating less revenue for each dollar of investment account assets. Revenue as a percentage of investment account assets has decreased by 27% from 2014 to the end of 2017. In 2014 revenue generated by investment programs averaged .81% of assets under administration. By 2017 that measure fell to .59%.

### PROGRAM REVENUE AS A PERCENT OF INVESTMENT ACCOUNT ASSETS



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# CHALLENGES

## **2. TRANSACTIONS AND ADVICE TO A SIGNIFICANT DEGREE, HAVE BEEN COMMODITIZED LARGELY DUE TO ADVANCEMENTS IN TECHNOLOGY.**

The combination of robos and remote advisors has reduced the price of advice, and the value of providing transactions has been reduced to next to nothing. If you are an advisor whose business is based primarily on transactions (you know who you are), then your days are numbered. That ship has sailed, or at least left the harbor and is now raising its sails.

Collaborative technologies have made providing remote advice very viable and cost-effective, meaning geography doesn't matter anymore, and your (possibly lower priced) competition is no longer just those institutions that share your physical footprint. Related to that is the fact that we, as a channel, have been chasing customers out of our branches, which begs the questions "Are our branch-centric sales structures still appropriate?" and "How do we prospect in the new digital traffic patterns?"

## **3. OUR CHANNEL HAS BEEN BUILT ON A ONE-DIMENSIONAL SALES MODEL**


Branch-based advisors use CD maturation lists to sell annuities. Advisors handle all comers using this transactional model and have ended up with way too many clients whom they don't know very well. Furthermore, this model has yielded a client base where advisors very rarely work with the majority of their client's assets. It's broad and shallow versus narrow and deep.

It's an extremely inefficient model and becoming less sustainable as margins get squeezed. Reliance on this model must end. How do you survive in an environment where your core offerings are being commoditized, revenues and margins are being compressed, and client expectations have increased? The answers are based on cost efficiencies, focus, and differentiation.

# ASK YOURSELF

1. What is our differentiation in a commoditized industry?
2. How do we maintain margins in a compressed earnings environment?
3. Advisors are the most expensive sales channel - are they focused on clients with the most extensive needs?
4. Are our high-level opportunities being handled most appropriately?
5. Are there more efficient ways to handle clients with lower - level needs?
6. As branches become less relevant, how should our advisors be maintaining their business?
7. As branch traffic declines, how do we uncover opportunities in the new digital traffic patterns?
8. Should all of our advisors be in branches?

These are profound questions that, if addressed honestly and properly, should change the course of your business. Consider these solutions.



**AS WE  
CONTEMPLATE  
FORTHCOMING  
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WILL ADDRESS THE  
CHALLENGES WE  
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EXECUTIVE.**

# SOLUTIONS

## 1. MOVING AWAY FROM THE ONE - DIMENSIONAL MODEL

The reality of our institutions' client base is that the various client segments have different degrees of need. Simply put, a client's complexity of need increases as we move up the spectrum from Low-Net-Worth, to Mid-Market, to Emerging Affluent, to Affluent, to High-Net-Worth, to Ultra-High-Net-Worth. One size (of investment advice) doesn't fit all.

What segments should your core advisors be focused on? Should you have non-branch-based "Wealth Advisors" focused on the higher segments? Should you have Associate Advisors and remote investment center advisors focused on the mid-markets? Are robo and self-service options being deployed effectively? Are you using an effective discovery process to efficiently discern which segments your institution's clients are in?



**LETTING SEASONED ADVISORS SERVICE THE MIDDLE MARKET IS LIKE HIRING EMERIL LAGASSE TO FLIP BURGERS AT MCDONALDS - IT JUST DOESNT MAKE SENSE**

# SOLUTIONS

Let's consider what we know statistically about the average advisor in our industry. That advisor spends an inordinate amount of their time servicing clients that represent the lowest 10 percent of their revenue base. An incredibly inefficient model. Your advisors (again, your most expensive sales channel) are most effectively leveraged when servicing clients with higher degrees of need.

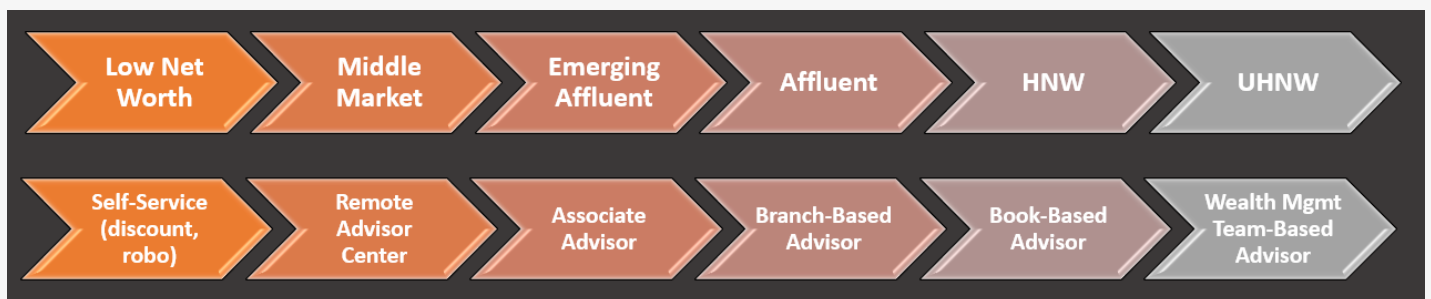
Letting seasoned advisors service the middle market is like hiring Emeril Lagasse to flip burgers at McDonalds – it just doesn't make sense.

The most successful advisors in the industry have deep relationships with a limited number of clients and manage the majority of their investable assets. They know that earning trust and providing clients the emotional benefits of financial confidence always offsets the effects of commoditization.

The most successful advisors in our industry have between 200 and 300 clients in their books, and base most of their business on recurring revenues with the majority of their business being fee-based.

That vision is the target you must aim for when incenting your core advisors and hiring new advisors. You must build processes, compensation, and recruiting that steers in that direction. If you're a large enough institution you must then surround these core advisors with associate advisors, remote investment center advisors, and self-service options on one side, and non-branch-based Wealth Advisors on the other. This will enable you to have a tiered delivery model where cost of sales is more aligned with the opportunity size of each segment. This is a critical point; cost of sales must be aligned with segment opportunity size.

Here is an example of what a fully built out delivery model may look like.



## 2. GETTING TO KNOW YOUR CLIENTS

Prescription without diagnosis is malpractice.

We are too often guilty in our channel of suggesting an investment solution before truly understanding client needs. This model isn't sustainable. We must have an effective, standardized, and institutionalized discovery process (diagnosis) that is consistently executed before any solutions (prescriptions) are suggested.

This process must be needs-based and should be built around the six core financial needs. No client, no matter how sophisticated their financial situation, will ever have more than these six core categorical needs, and they are Savings/Liquidity, Credit, Income Now, Income Later, Protection, and Legacy.



A DISCOVERY PROCESS BUILT TO UNCOVER THE DEGREE OF NEED IN EACH OF THESE SIX CATEGORIES WILL YIELD MANY BENEFITS, INCLUDING THE LIST ON THE FOLLOWING PAGE.



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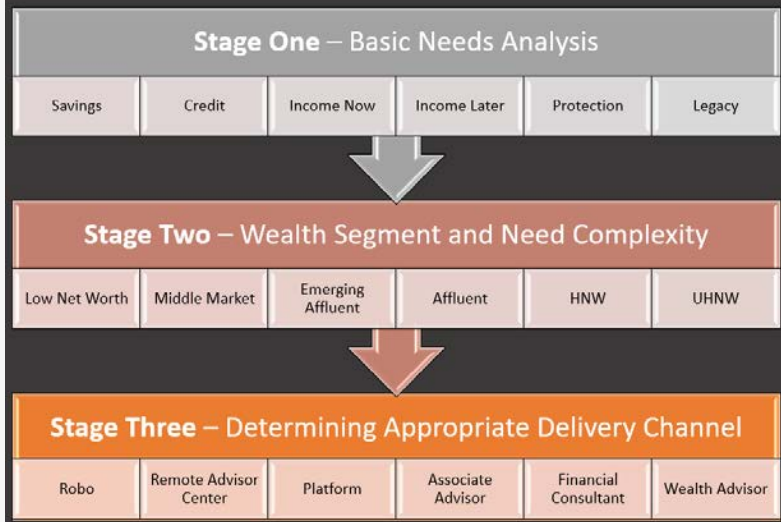
## BENEFITS OF A DISCOVERY PROCESS

- △ Enable advisors to gain trust, justify uncovering client assets, and manage the majority of these assets.
- △ Create a good partnership with the balance of the institution since these needs cover more than just investment and insurance services.
- △ Efficient mapping of solutions to each of the six needs.
- △ Do a better job solving for Protection needs since this will be on the table from the start of the discussion.
- △ Leverage the discovery process for triage across delivery channels to make sure the right clients end up in the right sales channels.
- △ Build a needs-based incentive compensation plan around solving for as many of the six core needs as possible.
- △ Change the language in the institution from product-based to needs-based.

**Clearly, financial planning should play a key role** in the needs analysis for the appropriate segments of the client base.

If we are to remain competitive we must evolve the cultures and hiring practices of our organizations to the point where financial planning for appropriate clients is simply the way we do business. Not doing so is not an option.

## Optimized Triage Process

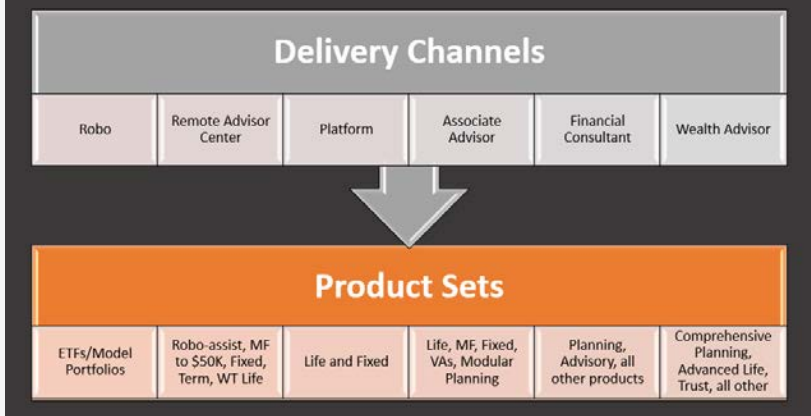


## 3. THE TRIAGE PROCESS

Leveraging the Six Needs discovery paradigm can be the foundation for an effective triage process to ensure that the appropriate clients are serviced by the appropriate sales channel. The basics of this process are as follows:

- ◀ Stage One - basic needs analysis focused on the six core needs.
- ◀ Stage Two - Assessing client wealth segment and the complexity of their needs.
- ◀ Stage Three - Determining the appropriate delivery channel.

## Mapping Solutions to the Triage Process



Finally, you can map solutions to this process, so you end up with a workflow that looks like this. While you may not have all the delivery channels identified above, you can still obviously map according to your structure.

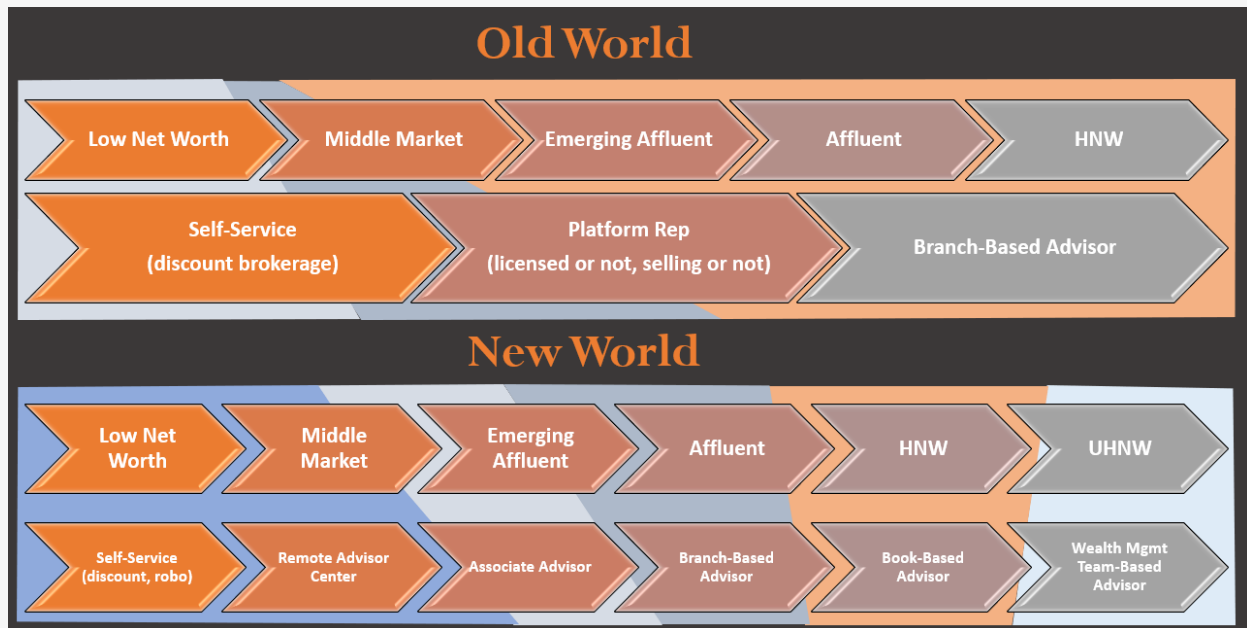


#### 4. REMOTE ADVISORS - THE CENTRALIZED INVESTMENT CENTER

As previously mentioned, geography is no longer much of a factor in advisor/client relationships. Given the latest collaborative technologies there is no reason our mass-market clients can't be serviced effectively via the phone and remote services by slightly less expensive, proactive, licensed, and headquarter-based advisors.

These centralized investment centers can become valuable profit centers for your institution. Not only can these centralized reps accommodate the mass-market client segments offloaded from optimized advisor's books, but they can also provide the hybrid touch for your robo offering and be a proving ground for future senior advisors.

## 5. AN OPTIMIZED TRIAGE AND TIERING DELIVERY PROCESS



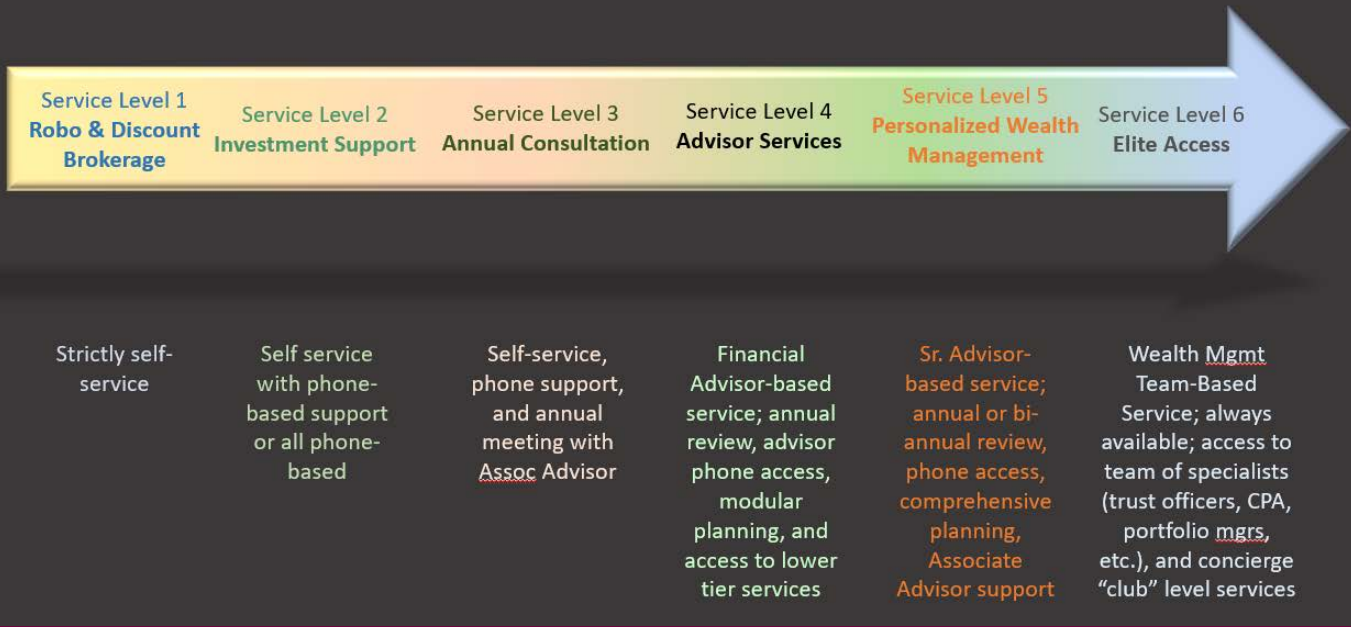
Once your optimized triage and tiered delivery process is in place you should be able to solve for the challenges of margin compression by making sure the cost of sales are aligned with the appropriate segment opportunity size.

The solution should look like the diagram above. (The color blocked areas behind this segmentation map represent where each client segment gets serviced.) The above diagram compares where we came from to where we should be headed.

**NOTE THAT PLATFORM REPS ARE NOT INCLUDED IN THE "NEW WORLD" GRAPHIC. PLATFORM REPS CAN WORK IN CERTAIN MODELS, BUT THEY ARE WIDELY CONSIDERED OPTIONAL IN THE EVOLVING LANDSCAPE.**

This is due to the evolution of remote advisors, associate advisors, and the transition of branch traffic to digital traffic. In theory, the mostly middle-market traffic previously managed by platform reps can be more effectively handled by associate advisors and remote advisors with a significant assist from data mining to uncover leads in digital traffic.

# SERVICE LEVEL TIERS



Don't confuse delivery tiers with service level tiers. Think of tiered service levels like the bundles of services that your cable provider offers. Each consecutive service tier bundles additional services in the offering and is priced accordingly.

Consumers are accustomed to tiering. Not only are we presented with tiered offerings from our cable providers, but we also choose between tiers of mobile phone service, hotels, restaurants, cars, credit cards, beer, wine, etc. Why is our channel so late to the party?

It's easy to construct tiered levels of service in our channel. Here is an example of what that might look like. Each level would be a branded bundled package of services. Appropriate levels would have AUM-based fees, but most importantly the upper levels would have annual minimum service level fees. Clients self-select which service level they want. This is the direction our industry is headed.

The easiest way to start your journey towards a fee-for-service model is to leverage fee-based financial planning. However, don't just position it as a financial planning fee, instead, create a service bundle that includes financial planning and brand it. Call it something like "Private Wealth Planning" for example. Specify that this service bundle includes a personalized financial plan, ongoing monitoring of plan progress, a mid-year phone review, an annual meeting with family for plan review, modification and financial education, coordination with the client's aligned professionals (CPA, attorney, etc.), and an invitation to an annual Wealth Summit. Again, brand it and charge an annual minimum fee for this service.

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## 6. CROSS DEVELOPMENTAL COOPERATION

If you look at the institutions in our channel holistically you'll conclude that we have the capabilities and capacity to offer a more comprehensive set of financial solutions than many other competitors in the overall financial services industry. This competitive advantage has not been appropriately leveraged, but it now must be brought into play as a differentiator.

Consider the array of services we can provide to our higher-net-worth clients if all the appropriate departments in our organization were effectively working together sharing clients and business development opportunities.

Smart organizations are proactively breaking down the walls between departments. They are hosting cross-departmental capabilities road shows. They are facilitating joint client review meetings with specified client opportunity discovery agendas.

We are in a race to add value. There is no good reason not to leverage the cross-departmental capabilities and opportunities embedded in your organization. This is part of the institution's cultural change that must happen.

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# CONCLUSION: THE GAME PLAN

At the beginning of this whitepaper we asked, “How do you survive in an environment where your core offerings are being commoditized, revenues and margins are being compressed, and client expectations have increased?” The strategies above lay out a blueprint for you to address these challenges. At a high level, here are the steps you can take to begin your optimization initiative.

1. Define your client segments.
2. Map the touchpoints for each segment to an optimum delivery tier structure.
3. Storyboard the discovery process and desired client experience for each touchpoint and incorporate the six needs analysis where appropriate.
4. Define and brand each service level offered to clients and decide how these offerings will be marketed and charged.
5. Once initiated, measure success and tweak as needed.



There is significant opportunity to leverage the current inflection point to stand out in this evolving landscape and to rise above your competition. It will take some heavy lifting, but it's a challenge that will be rewarding to conquer. Embrace it and enjoy the success!

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Stathis Partners, LLC is an executive resources firm in the bank and credit union brokerage channel. SP's primary objective is to make the channel more competitive by fostering best-practices knowledge exchange and spearheading new business intelligence initiatives. This is accomplished by providing research, consulting, and live forums where executive leaders in the channel enhance strategic thinking via peer group discussions. Much of SP's work is accomplished via partnerships with other subject matter experts in the industry. This enables us to bring best-of-breed solutions to bear. For more information on Stathis Partners, visit [www.stathispartners.com](http://www.stathispartners.com)





# Tiering Delivery and Service Levels to Meet Market Needs



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