Meeting the hybrid sales challenge

Part two of two: How licensing platform bankers affects your broker sales force

More banks are relying on hybrid sales teams—those that include traditional Series 7 and licensed bank branch staff—and mostly, to good end. As discussed last month, with hybrid teams, banks have the potential to generate higher investment sales, even higher revenue, and very high profit penetration.

But a hybrid sales force isn't without its challenges.

In part two of this two-part report, we address the impact that licensing platform bankers can have on the existing broker sales force, and determine whether the bankers are doing an adequate job of selling.

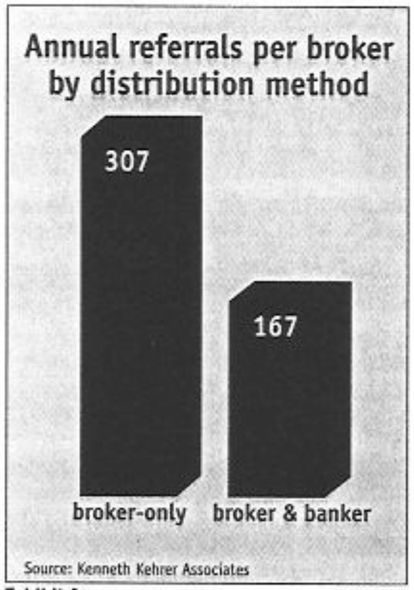

Exhibit A

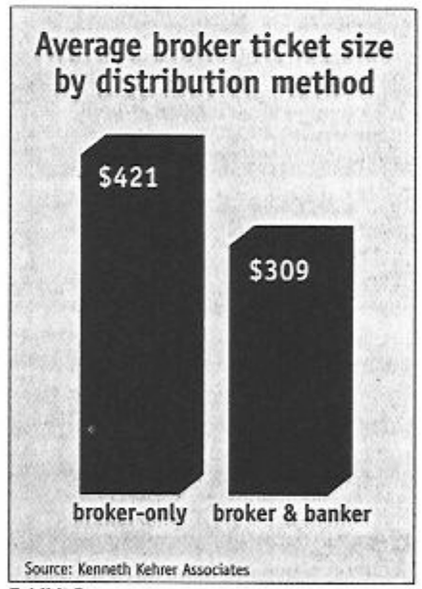

Exhibit B

Brokers lose referrals, lose sales

When brokers first hear that bankers will be trained for investment sales in their bank, a common reaction is, "What will happen to my referrals?"

According to the annual Kehrer-Essex Bank Investment Program Benchmarking Study, brokers' fears are well founded. Brokers in hybrid programs receive only about half as many referrals as brokers in traditional selling environments. The platform bankers are making sales to some customers that they used to refer to the broker (see exhibit A).

Faced with fewer referrals, the broker's sales suffer. According to study findings, brokers working in hybrid programs produce $209,793 in annual sales commission revenue for their bank investment services program, 12% less than brokers working in traditional programs that use only full-time investment counselors. Lower sales production translates into lower income for the broker.

Platform bankers tend to sell relatively more annuities than the full-time brokers, and those sales involve larger amounts

But that is only part of the bad news for brokers in hybrid programs. It turns out that the bankers tend to capture the bigger sales. Platform bankers tend to sell relatively more annuities than the full-time brokers, and annuity sales tend to involve larger amounts of dollars invested as well as higher commission rates on the investment.

These two factors result in larger "tickets"—commission revenue per sale—for branch bankers than for brokers. For example, in our most recent benchmarking study, brokers in hybrid programs averaged $309 in commission revenue per investment transaction, only about three-fourths the average ticket size of brokers in broker-only programs (see Exhibit B).

Faced with having to work harder to maintain their incomes, no wonder some brokers might be tempted to vote with their feet and move on when the bank starts a hybrid program. But broker turnover is actually lower in hybrid programs than in traditional broker-only programs. That's because well-managed hybrid programs restructure the broker's compensation so that the broker participation is larger than the fee income generated by the hybrid program. Moreover,

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with the licensed bankers handling the workaday investment needs of many bank customers, the broker can focus on customers with more complex investment or financial planning needs.

How well do bankers sell?

Brokers often complain about the whole idea of licensing bankers in the first place. While some of these complaints probably arise out of self-interest (namely, the impact on the broker's wallet), others are based on concern for the well being of the bank's investment customers and the bank's liability exposure for unsuitable sales.

"How can the platform banker possibly do as good a job selling investments as I do?" is a question frequently asked by vexed brokers. "I've had years of experience that amounts to on-the-job training. I eat and sleep investments, while the banker is focused on all those banking products and servicing customers."

For a dispassionate look at this issue, consider Q-Group, a research firm in Tempe, Ariz., which has been conducting mystery shopping studies of broker-only and hybrid bank investment sales programs for the past few years. Q-Group's research illuminates both the strengths and weaknesses of selling investments through licensed platform bankers.

The Q-Group shopper posing as an investment prospect checks for three kinds of compliance behaviors—disclosure of investment risk, product knowledge, and suitability of the investment recommendation.

In 33 mystery shopping studies, the licensed platform bankers did not perform as well as the full-time brokers, but the performance gap was relatively small. Where the bankers came up quite short was in needs assessment—profiling the customer for investment experience and investment objectives, the building blocks of a suitable investment recommendation (see Exhibit C).

The Q-Group shoppers also tested for sales and service skills. Surprisingly, bankers—who have the reputation of being passive order takers—do quite well. Specifically, they score just as high, on average, as full-time brokers in "advocating skills," the behaviors that close the sale. Surprisingly, bankers do not perform quite as well as the experienced brokers in "relating" skills—the ability to get the customer comfortable with talking to you, perhaps even to like you. This despite the fact that the banker is more likely to have an established relationship with the customer.

Exhibit C

Source: Kenneth Kehrer Associates & Q-Group

The larger shortfall in banker performance is in "discovery" skills, traits that are related to the required suitability assessment skills (see Exhibit E). It appears that many licensed bankers, pressed for time because other customers are waiting, spend much less time than brokers on the "get-to-know-you" phase of the sales interview. For experienced brokers, the chatting serves as a warm-up to needs assessment and suitability determination.

The Q-Group research demythologizes the issue of whether licensed bankers are compliant and effective investment sales people, and it pinpoints the areas where they most need help.

Just as interesting, research demonstrates that licensed platform investment sales staff improve with experience. Over time, bankers' suitability needs assessment and discovery scores increase until they approach the levels of the average full-time investment sales professional.

What's in it for the broker?

The objective for hybrid programs should be to accelerate this learning curve through training and effective sales coaching. Probably the best single way to do this is to enlist the support of the brokers themselves. Many banks have been able to leverage the experience and skills of the brokers to mentor the bankers, helping them become more successful investment sales people.

What will motivate the broker to agree to get involved in coaching? Simply put, additional compensation. Some banks pay the broker part of the commissions generated by all the bankers in the branches covered by the broker. Other banks go even further to encourage teamwork among the brokers and licensed bankers by sharing all the sales commissions, no matter who makes the sale.

The additional compensation replaces the income the broker loses when bankers start selling and reduce their referrals, and it helps to discourage competition for the customer.

Still, this method of compensating the broker can create problems of its own. If the broker is being paid for mentoring the bankers, for example, that person should have defined coaching duties and the training and tools to be an effective coach. Sales management should hold the broker accountable for the coaching role. Otherwise, as the banking staff learn how to be more and more productive investment sales people, tensions will emerge about why the brokers are making so much money off the work of the bankers.

Other problems can arise if too large a share of the commission is paid to the brokers for their coaching role. It is becoming the norm to credit 70% to 75% of the bankers' sales commissions to the brokers commission grid, which for the typical broker amounts to about 25% of the total commission. This seems disproportionate, since the banker typically receives sales incentives in the 5% to 10% range, and even the broker's supervisor—the investment sales manager—earns only about 5% of the gross commissions generated by the brokers he or she manages. Paying the broker 4 times as much to coach as the bankers are paid to sell, and 5 times as much as the sales managers seems out of whack. We have seen this kind of disproportionate reward for coaching become dysfunctional over time.

Of course, another problem with paying so much to the broker for the banker's sales is that it could undermine some of the key reasons for licensing bankers in the first place—that is, reducing the cost of sales and increasing margins.

Still another challenge of the broker/coach model is that some brokers want to sell, not coach. And some brokers might not have the personality to become effective coaches. To address this reality, it is useful to give the brokers a choice about whether or not they want to coach, and to give them the opportunity to opt out of the coaching r'ole if it doesn't appear to be working in everyone's best interests. This works best when the bank has alternative, off-branch channels where it sells investment (e.g., the trust department, private banking, standalone investment offices, and the like.)

Provide incentives

It should be noted, too, that it is very important to provide investment sales incentives to the licensed bankers. Some banks have tried to implement hybrid investment sales programs by mandating that platform bankers will sell, but not providing cash sales incentives.

In our experience, those programs tend to flounder. Selling investments appears to require the carrot of cash sales incentives to encourage the sales person to shrug off the inevitable rejections by prospects who do not purchase an investment.

Even experienced professionals typically encounter three or four "no sales" for every sale.

Despite these management challenges, by aligning compensation with the objectives of increasing sales and fostering teamwork, banks can develop a distribution model that uses a low cost sales force to handle straightforward investment needs, and a higher cost sales force to serve investors with more sophisticated investment needs. *BJ*