

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

The 2% Differential

Steven Drozdeck and Karl Gretz

What are the key attributes necessary for long-term success as a financial consultant in all areas of the financial services industry? The "stars" throughout the financial services industry actually produce 1,600% more commission revenue than "average" producers. No, this is not a typo. It is a significant difference. As you read this article, you will see much of yourself because these ideas were developed by modeling hundreds of highly efficient and effective producers and codifying their conscious and unconscious behaviors. You will see things that currently describe yourself but may also read a few things that other top producers are doing which may enhance your personal style/abilities. Additionally, since many readers of this publication have junior associates and sales assistants, the ideas presented here may help them service your clients more effectively.

**The "80:20 Rule"
Results In A 1,600%
Difference**

The 80:20 rule seems to apply to many areas of life – certainly to production. Essentially, 80% of our commission revenue is derived from 20% of our clients. (Looking around many offices, we've noted that many brokers spent most of their time with the least profitable clients – a topic that will be discussed in a subsequent article.) Interestingly, most financial services firms also get 80% of their commission revenue from the upper 20% of their producing representatives who tend to be members of the top recognition clubs of their respective firms.

There are some interesting ratios which are derived from the 80:20 rule. Top brokers are generating 16x more commission revenue than average brokers! (Here is the computation: Assume that \$10 in firm commission revenue is divided among five brokers. One broker (representing the top 20% of the firm) has generated \$8 of the \$10 (representing 80% of the total commission revenue). The other four have generated the other \$2 in commissions or \$0.50 each. Thus, the star performer has produced 16x more revenue.) Top producers aren't 16x smarter, more intelligent, efficient, better-looking, deserving than the others. Yet, they are paid as if they were. What are the differences that make the difference? We call the the differences "*the 2% Differential.*"

**THE 80:20 RULE
SEEMS TO APPLY TO
MANY AREAS OF LIFE –
CERTAINLY TO
PRODUCTION**

The 2% Differential

Over the past 20 years we have had the opportunity to analyze the characteristics of the star performers of the financial services industry and have noted that there are certain key traits which are shared by the most successful financial representatives. Within our book, *The Broker's Edge*, it is called "The 2% Differential". The majority of the book is devoted to codifying and teaching readers about "the differences that make the difference." The key characteristics fall into four broad categories which are briefly explored here and discussed in greater depth in this article series. The key characteristics are: (1) **Consultative Selling Mindset**, (2)

Professional Knowledge, (3) **Business Management Skills** and (4) **Personal Motivation**.

Consultative Selling Mindset

Placing the needs of the client first and being concerned for the client's well-being is paramount to this mindset. Top

producers realize that their primary responsibility is to help clients identify, define and achieve their financial goals. Contrast this attitude with reps whose primary goal is to generate commission revenue for themselves. We can all intuitively tell when someone is trying to help us and when a salesperson is merely "in it for the money." One of the reasons that you have long-term relationships with clients is the innate desire to be of good service.

While the consultative selling "I care" attitude is important, it also hinges upon a series of important skills which are essential for quality financial relationships. These essential skills include:

- Relationship skills: How to quickly establish rapport with people so they feel confident in your competence.
- Communication skills: Explaining complex topics in ways that a client can both understand and appreciate. This also includes ensuring mutual understanding.
- In-depth financial profiling: Discovering the multiple needs that clients must have and designing an integrated financial plan to help the clients achieve their goals.
- Understanding the psychological needs and makeup as well as the particular "buying motivations" of

prospects and clients: Realizing that people buy for their reasons, not ours.. Top performers intuitively modify their sales presentations to match the client's thought process. Matching such processes dramatically reduces resistance to our suggestions.

- Effective selling techniques and strategies: Making presentations in a persuasive manner so clients can make "informed decisions" and feel good about the decision.
- Effective methods for getting referrals, etc..

Professional Knowledge

The best financial consultants are perceived by their clients as having extensive knowledge of the financial services industry. This includes various financial strategies that are appropriate for different economic and market environments. It also includes knowledge of the specific features, benefits and advantages of different products and services (and their appropriateness) at various stages of the economic/market cycle.

A characteristic of most top producers is they have a viable investment philosophy and are able to communicate this philosophy to their clients. They have specific criteria for making investment recommendations and have an exit or hedging strategy when the investment fails to meet their criteria.

Business Management Skills

Highly effective financial representatives think of themselves as owners of their own franchise, while less efficient reps think of themselves as employees of their firms. These high level producers "run their business like a business" and are very careful regarding time, energy and resource allocation. They generally have a formal or informal mission statement, a strategic plan for attaining their objectives, know how to make effective goals and then monitor performance (their own as well as others) relative to the attainment of their objectives.

Culling and cloning your book of clients and understanding the characteristics and profile of ideal clients (results from a demographic study of their business) is an essential element of business development. Again, the 80:20 rules applies. Yet, too many reps spend the vast majority of their time on smaller clients. Large increases in productivity can be

expected once we spend our time in a highly productive manner.

Personal Motivation

The ability to maintain on-going motivation over the years is partly a result of effective goal-setting, having a strategic plan and having a formal/informal mission statement – the primary focus of the business management skills above. Highly successful financial representatives have stood the test of time, while most others drop out, burn out or attain mediocrity. The ability to handle stress is also a key differentiating factor. Exit interviews with numerous financial representatives have indicated that the primary reason for leaving the business (an 80% dropout rate within the first five years in the brokerage business) is stress. The most common source of stress is the inability to handle rejection.

The combination of the correct mindset (professional knowledge + effective business management skills + maintaining long-term motivation) results in the stellar performance of this elite group of financial consultants and differentiates them from the average broker

In Summary

The minute, yet important differences that define the beliefs and behaviors of the top performers lead to quantum differences in productivity. What stops people from reaching the next levels of productivity? It is usually a combination of one or more of the following: they either don't know "How To" become more effective, don't "Want to" do the things necessary to reach the next levels or they don't have the "Chance To" perform at higher levels. Over the months ahead, we will explore deal with the How to, Want To, Chance To" issues as each of the four characteristics of the 2% Differential are explored in greater detail. ■

About the Authors

Steve Drozdeck and Karl Gretz are principals of Drozdek and Gretz, a sales and marketing training organization primarily focused on the financial services industry. Drozdek and Gretz have written nine books and have worked with the leading firms in the financial services industry. For more information call 760-788-8312

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