CERULLI ASSOCIATES

2006 STATE OF WHOLESALING: NEXT-GENERATION COVERAGE MODELS

October 2006

Cerulli Report™ Case Study - Advanced Sales Corporation

The following is a case study from The Cerulli Report™ entitled **State of Wholesaling: Next-Generation Coverage Models**.

CASE STUDY: ADVANCED SALES

Advanced Sales is an Illinois-based training and consulting company. It provides training and consulting to a number of financial services companies. One of its primary initiatives is The Strategic Wholesaler Training Program, which is a process for experienced wholesalers to optimize their performance using strategy, territory management, target marketing, and advisor-focused marketing initiatives.

The Strategic Wholesaler Training Program begins with an in-depth discovery process. The product provider gives detailed information to Advanced Sales on their producing advisors by wholesaler territory. Advanced Sales also learns more about the company's product line, core competencies, and needs. The quantitative piece is fed into a proprietary revenue planning tool. These help Advanced Sales perform a comprehensive assessment of each wholesaler's territory and reveals where they are strong. By looking at metrics such as average ticket size and number of tickets, Advanced Sales can easily identify whether the wholesaler is penetrating top advisors and whether they are effectively working with mid-tier advisors. Ultimately, these numbers can evaluate whether they have a growing, stagnant, or declining territory.

This information collection feeds into a two-day training session with the product provider's wholesalers. First, the wholesalers are shown their analysis and how it compares to the rest of their firm's wholesalers. Their producing advisors have been segmented as As through Ds. From this analysis they are shown how to develop a plan. However, the plan is not developed in an ivory tower. The tools provided by Advanced Sales can quickly help determine whether the wholesaler's business plan is feasible or not. For example, if they wish to see their "A" producers six times a year, they can see whether there are enough days in the year to accomplish it. They can analyze their plan, change the assumptions, and see what these different assumptions do to their production and, ultimately, income. The variables in this simulation include the number of times they visit each class of producer, how often they visit each geographic segment of their territory, their closing ratio, and their attrition of existing producers.

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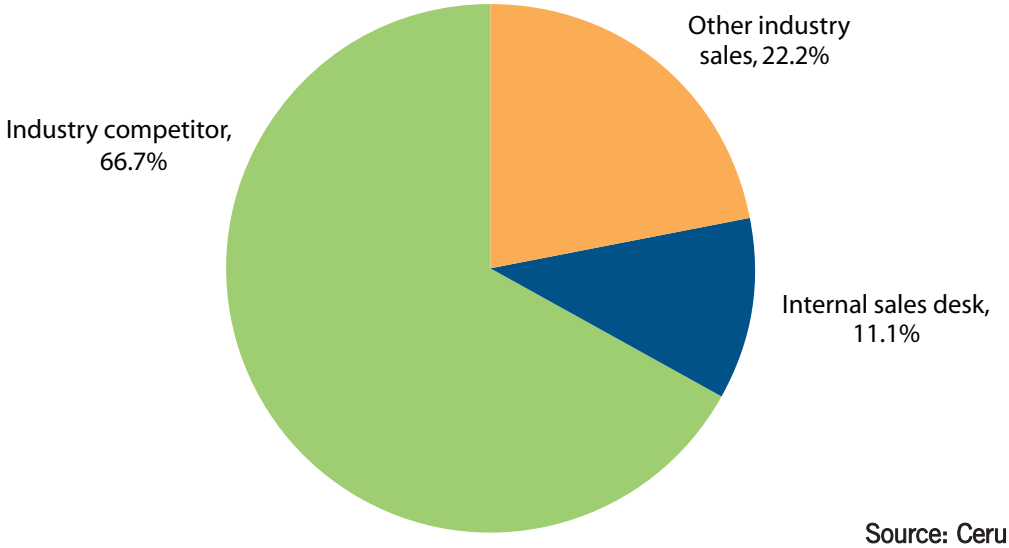
The next stage of the training is focused on presentations and positioning of the provider's product. Advanced Sales feels that too many sales strategy presentations are too conceptual and don't actually tell the wholesaler what they need to do. Because of their industry experience, Advanced Sales can understand the unique features of a product and translate it into three-point presentations for the wholesalers. These presentations are focused not just on the features of the product, but, more importantly, teaching the advisor to then present the product to their clients. The wholesaler learns how to incorporate their value proposition into this presentation and how to differentiate themselves to advisors.

Ultimately, the wholesaler will walk out of this training with an implementable business plan. The revenue planner will give them a detailed input of what their rotation should be and how often they should visit specific areas. Their calendar for the next 52 weeks will already be laid out for them. They will be equipped with a presentation that emphasizes their strengths as a wholesaler as well as the unique strengths of their product. The overall program gives the wholesaler a role in planning for their territory rather than being dictated to on what their strategy should be. As well, they have the ability to constantly update the assumptions in their plan as they see how it holds up in real life.

HIRING CONSIDERATIONS

As we have mentioned, there are two primary routes to expanding a wholesaler force. The first is the "free agent" route. In this approach, product providers hire experienced wholesalers away from their competitors. In this case, they are hoping a wholesaler who is established in a territory will bring with him or her an established group of contacts with advisors. As a result, they will be able to get their territory producing sooner rather than later. In order to lure a wholesaler of this tenure, the hiring company will often pay them a guarantee of commissions for 12 to 24 months. In the "farm team" route, relatively junior wholesalers are hired instead. These wholesalers can be hired off an internal sales desk or they can be recruited away from a competitor. The wholesalers that are targeted in this case are not well-established wholesalers, but those with only one to three years of wholesaling experience. They are likely on their first wholesaling job and were hired from their former company's internal sales desk. A derivation of the "farm team" model is hiring sales professionals from other industries. Many sales managers feel it is easier to teach someone a product than sales skills and, not finding qualified candidates through either route above, are targeting polished sales professionals outside the industry.

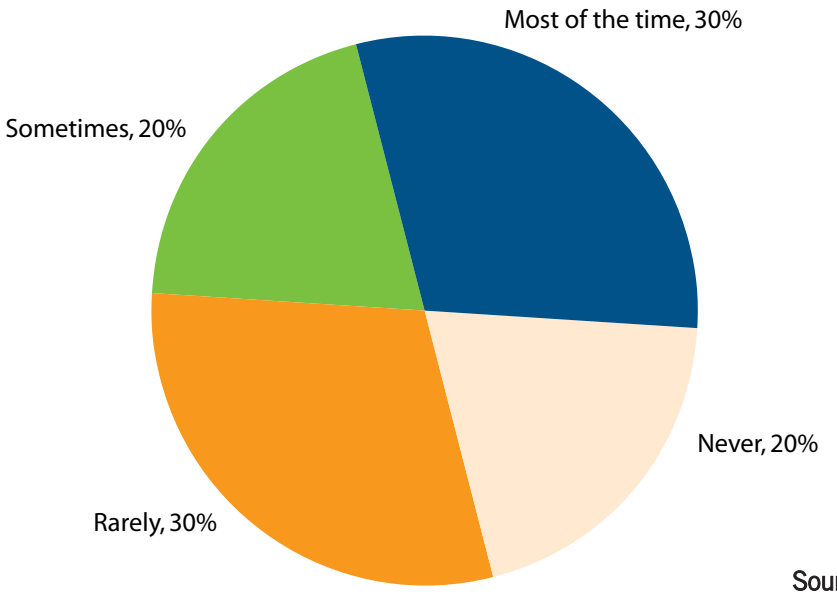
Of the wholesalers you hired in 2005, where did you hire most from?



Source: Cerulli Associates

When taking the "free agent" route, one must question why that wholesaler is looking to leave their former company. Often, they are leaving because they are not producing or they have a conflict with management. This model backfires if you build an entire salesforce by taking your competitor's problems off their hands. In the variable annuity industry, these wholesalers are nicknamed "1035 wholesalers" because, like a Section 1035 tax-free exchange of variable annuity contracts, they are only moving to get paid. The "free agent" route can be contrary to rapid expansion. The hiring of 20 or more veteran wholesalers cannot be accomplished in a few months. The hiring product provider is well-served to be patient and hire only the right people. Otherwise, they may find themselves laying out large guarantees for a wholesaler who has little interest in working.

Will you pay a guarantee to recruit a wholesaler from another firm?



Source: Cerulli Associates

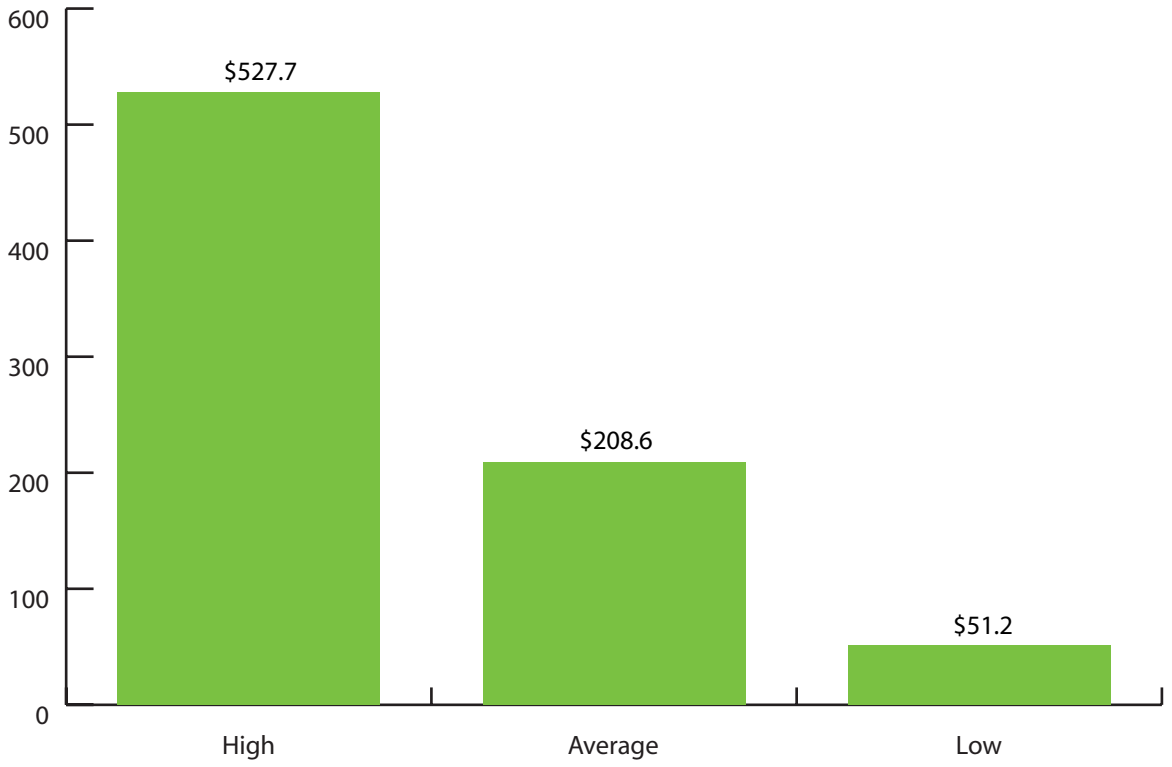
The "farm team" route developed as a response to the failures of the "free agent" route. Because the "farm team" route brings in relatively junior professionals, they are less expensive to attract, and the hiring company is not on the hook for a large guarantee if the new hire does not work out. The cost difference between hiring an experienced wholesaler instead of a junior one can be over $100,000. As well, because they are earlier in their career, they should, in theory, be more eager to succeed and have a stronger work ethic. As a result, the hiring company, at the very least, knows the new wholesaler will be in offices every day talking to advisors.

The downside of this route is that junior professionals need more coaching. If successful in the "free agency" route, a product provider will attract a seasoned group of wholesalers who can be relatively self-sufficient. Because they are experienced in the financial services industry, they can discuss a wide variety of topics with an advisor and be a business consultant with little guidance from sales management or the home office. It is unfair to expect a less seasoned professional, however, to become a trusted business consultant to a senior advisor with no help. As a result, the product provider must invest additional effort in developing a suite of value-added materials that the wholesaler can deliver. A junior wholesaler must still work in a consultative fashion with advisors, but they need a selection of preset paths to bring a business solution to the advisor.

As well, because of their relative inexperience, junior wholesalers need additional interaction with divisional sales managers. All divisional sales managers should spend time on the road with their wholesalers, but this component of their job is especially important with a less tenured salesforce. Junior sales professionals need more coaching to refine their approach than a more senior person does, and the divisional sales manager needs to provide it. The divisional sales manager must also help the junior wholesaler in difficult situations. If the junior wholesaler has gotten an audience with a top-producing advisor or has a platform speaking engagement, they would be well-served to involve their divisional sales manager. In these situations, the divisional sales manager can bring more experience than is possible for a wholesaler who is in their late 20s or early 30s.

Advanced Sales (profiled above), a Chicago-based wholesaler training company, can estimate how long a wholesaler has been in a territory by looking at their sales metrics. Any worthwhile wholesaler can affect sales in their territory immediately. However, by looking at metrics such as a wholesaler's number of producers, growth of new producers, and average ticket size, Advanced Sales can estimate whether that wholesaler is penetrating top advisors, and therefore, their tenure in the territory. Again, a strong wholesaler should affect a territory's sales immediately, but many sales managers believe it takes 24 to 36 months, even for an experienced wholesaler, to get a territory to its potential.

Average Mutual Fund and Separately Managed Account Gross Sales per Wholesaler in 2005 ($ millions)



Source: Cerulli Associates

About Cerulli Associates

Headquartered in Boston, Cerulli Associates provides financial institutions with guidance in strategic position and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.