BankersHub
Getting from Here to There

Newsletter Article

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PAY, PRODUCTIVITY... AND CLIENT SATISFACTION

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ABOUT THE AUTHOR

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ABOUT BankersHub

BankersHub was founded in 2012 by Michael Beird and Erin Handel, 2 Financial Services professionals dedicated to educating and informing banks, credit unions, solution providers and consultants in the U.S. and worldwide. BankersHub delivers best practices, research insights, opinions, economic trends and consumer views through online web education, virtual events and conferences, live streaming activities, custom training and content development.

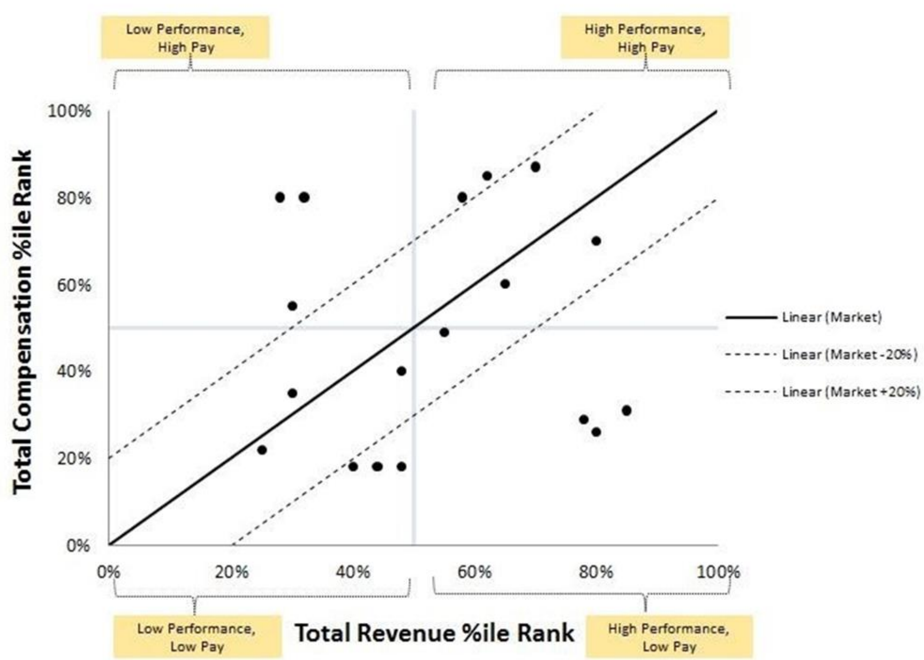
General George Patton once encouraged his men to 'Accept the challenges so that you can feel the exhilaration of victory.' One of the biggest challenges facing wealth management firms is how to address slow growth and less productive advisors. But with a little imagination and Scorpio insight, we believe victory is at hand.

In an ideal world, advisor pay and their productivity would be in tune with each other and the market.

In real life, there are always exceptions – those who are productive but aren't compensated in line with their peers; and possibly the opposite, where someone is well compensated but less productive. How can firms most effectively make personnel decisions when productivity and/or compensation are not in line with the market?

Consider the following chart that plots advisors across two dimensions: productivity and compensation.

Figure 1: Compensation and Productivity Relationship



Source: Scorpio Partnership

The dotted lines in Figure 1 define the zone where productivity rank and compensation rank are most closely aligned. Advisors within this zone are determined to have advisor compensation aligned with productivity – an ideal situation. Points outside these lines suggest the firm's remuneration is unaligned to revenue generated. This means the business is inefficiently rewarding their advisors relative to its goals.

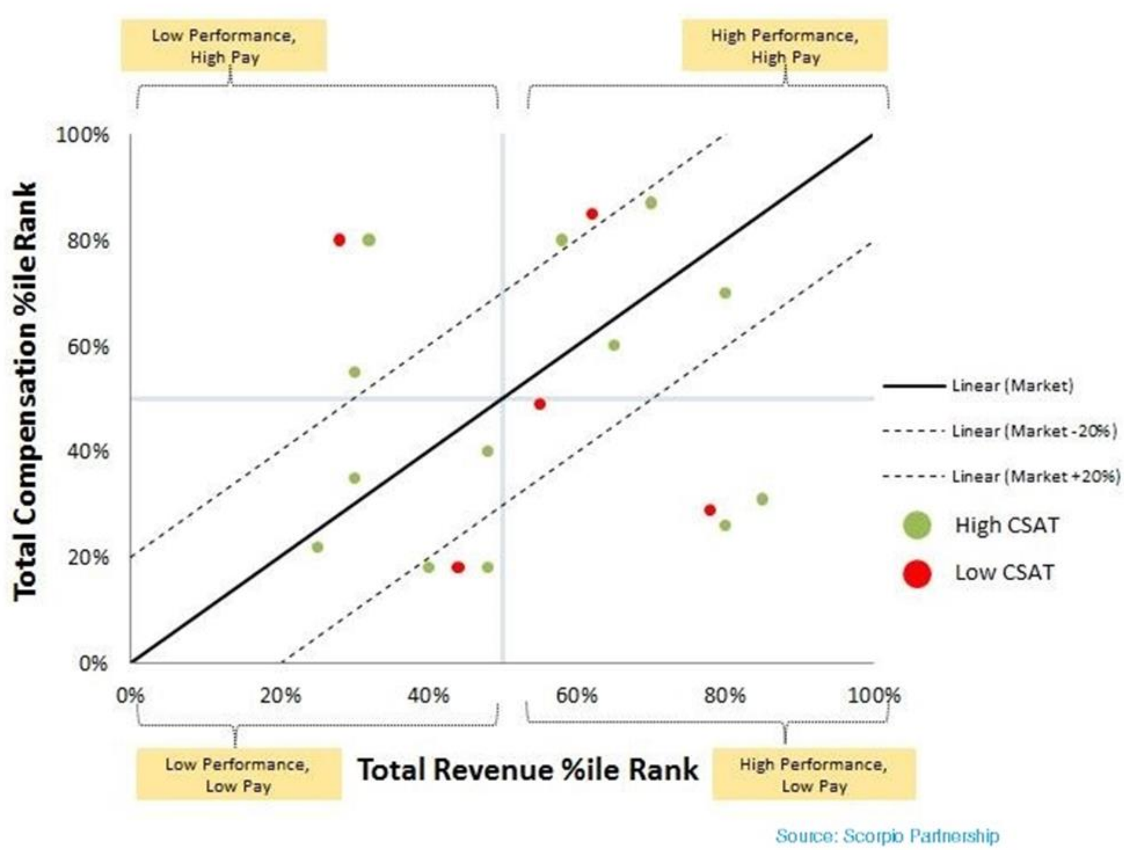
Advisors outside the "ideal zone" can further be classified depending on the quadrant they fall in, each quadrant posing a different challenge for businesses to address.

These quadrants are summarized in this table:

Pay Rank	Productivity Rank	Key Consideration
High	High	Continue to ensure appropriate alignment of pay and performance
High	Low	Improve productivity or decrease compensation, consider advisor's book
Low	High	Advisors are at-risk of attrition, increase compensation
Low	Low	Can advisor performance be improved?

But of course, these are just two sides of the business dice, and while instructive, we believe insufficient. Where's the client in this understanding of business operation? To understand how the client experience fits into this analysis we've recreated the chart in Figure 1, and added another dimension - each advisor's client satisfaction scores.

Figure 2: Third Dimension - Client Satisfaction



This added dimension demonstrates where growth opportunities lay, and provides an indication of what is possible for a specific advisor over the longer term. In the absence of this data, two advisors with comparable pay and productivity rankings may be treated the same, while fundamentally, having different challenges.

Consider the advisors in the low performance/low pay quadrant. How does knowing their CSAT score change how you think about their pay vs. productivity relationship? Which advisors have the greatest long-term financial potential? How can bonus pool dollars be better allocated among these advisors, assuming you could differentiate?

Over the last year, we have worked on a number of engagements quantifying the link between advisor productivity and the client experience. Our findings overwhelmingly support a simple view: productivity (revenue generation) and asset growth over time, are closely associated with high levels of client satisfaction. Given McLagan's traditional expertise in wealth management compensation and incentive pay practices we've started to turn our attention to understanding the implications of these findings relative to business decision-making.

Real life is far more complicated than two or even three dimensions. A myriad of other complexities such as market recruitment dynamics, advisor demographics and other business objectives all contribute to decision making.

Yet, by considering the client's view in their calculations, firms' have a far better chance to improve results, not just for their firms, or their advisors, but their clients as well.