

Cross-Selling for Success

Raymond Adamson



Raymond Adamson is a vice president of the Covenant Group, creators of the program called The 8 Best Practices of High-Performing Advisors. He is a facilitator and coach and has spoken for various organizations, such as Clarica, Sun Life, Manulife, Empire Life, The Guardian and the Ontario Sales Congress. Adamson has helped hundreds of advisors implement a practice development system into their businesses. Before joining The Covenant Group, he spent seven years as an advisor and principal of his own financial services organization.

The Covenant Group
335 Bay St., Suite 701, Toronto, ON M5H 2R3, Canada
Phone: 416.304.1766
E-mail: ray@covenantgroup.com

I/R Code: 5600.02
Cassette: A0553
CD: C0553

I want you to know how excited I am to be speaking here today about cross-selling because I know that it can help you take your business to another level. We've worked with advisors who, by simply adding cross-selling as one of their strategies, have been able to increase their productivity by fifty percent over the year. I am sure that there are very few people in this audience that haven't heard this term before. I am told time and again by advisors that they know all about cross-selling. However, what constantly amazes me in my work with advisors is the gap between KNOWING and DOING. I am amazed because each of you has acres of diamonds within your existing client base just waiting to be mined. Today I want to take you through not only the WHY of cross-selling, but also give you some examples of the HOW.

Now what do we mean when we say cross-selling? Essentially it is marketing products or services to your existing clients that they haven't already purchased from you. It sounds pretty simple in theory, doesn't it? But in reality, it is hard for us to move outside of our comfort zone. We've all heard the adage that the longest journey starts with a single step. The first step in your journey in cross-selling starts with clarifying your vision. What are you trying to achieve? Do you want to double your revenue? Work fewer hours? Only by clarifying your vision can you begin to formulate a strategy for success. And cross-selling is a strategy to achieve success.

I came into the insurance business in 1993 as a second-generation advisor. I learned a lot about how to survive — as well as thrive — in this business from my father who ran a successful practice for three decades. Over that time, my father, and probably many of you in this room, witnessed many changes in our industry. When looking back, we can measure three paradigm shifts in the industry. Until the late 1970's we were in a Sales paradigm. To be at the top of our game, we had to master the art of sales. But then our industry began to change dramatically. As regulatory walls came down, competition increased. In order to be at the top of our game, we had to transition to the second paradigm, Marketing. In order to differentiate ourselves we had to build a brand and offer

Cross-Selling for Success *(continued)*

a number of products and solutions. This allowed us to be at the top of our game to the mid-90's. What we began to witness at that time was the top advisors had transitioned to the third paradigm, the Business Paradigm. In order to master the art of business, top advisors began to see themselves as entrepreneurs and focused on the profitability of their business.

One of the first things I learned from my father was activity drives results. I will not argue this point and, depending on your age and stage in the business, activity is an appropriate focus. What we need to recognize is that EFFORT does not always equal REWARD. With focus, we can expend the same level of effort and receive a much greater reward. Now I don't want to sound too mercenary, but you have to decide if you are running a for-profit or non-profit business. Your ability to focus will have a big effect on your profitability. My father was a classic entrepreneur who, over his lifetime, ran many non-profit businesses. He didn't start out running them as non-profit, but they ended up that way.

Cross-selling is a strategy that will allow you to run a more profitable enterprise. But in order to be strategic, you have to be proactive. You have to have a process or methodology that is consistent. When I speak of cross-selling I mean selling an additional product or service to an existing client. It works *really* well when the client actually needs what you are selling! For those in the insurance industry, that means looking for opportunities to sell investments or other insurance-related products, like critical illness or additional investment vehicles. For investment advisors, that means selling insurance products.

As I mentioned earlier, many advisors KNOW about the concept of cross-selling, yet few are actually DOING it. According to an independent survey conducted recently by Axis Consulting, 99% of insurance advisors feel it is critical or important to be able to cross-sell effectively. But only 46% consider themselves successful at cross-selling.

And in today's market, that's a serious risk. The general trend with today's insurance practitioners is still specialization, but the days when you could specialize in

insurance and grow a profitable business may be passing. Cross-selling will become a dominant trend in the coming years, so anyone who wishes to thrive in this industry will need to address it.

So, what will happen to you and your business if you don't cross-sell? If you're an insurance professional and you're focusing only on that one aspect of your client's needs, you're leaving yourself open to competition from another advisor who'll offer your client a full-service approach. And we can't be fooled into thinking that *nobody* can do what *we* do better than *we* can. There are many advisors out there offering one-stop, full-service financial planning, and they're doing a great job of it. They know if they want to compete and remain profitable, they need to move from a transaction-oriented practice and begin capturing a greater share of their client's wallet. They know success depends on focusing on the lifetime value of a client.

Today, the competition is fiercer from the investment side of the industry. With the stock market retreating over the past few years, investment advisors have been forced to rethink their business model. For them, risk products are an attractive alternative to volatile investment products. Furthermore, the margins on their products have eroded, while the margins on risk products are still attractive.

The Axis Consulting survey found 15% of investment advisors derive 40% or more of their gross commissions from selling insurance products. Fortunately, 34% of insurance advisors derive 40% or more of their gross commission from investment products. It's heartening to know that we are making inroads in the cross-selling game, but at 34%, there is still significant room for improvement.

You might be resistant to cross-selling because you believe it will divert your attention away from your core business and dilute what you do well. But if you look at it from the perspective of your clients, cross-selling really becomes a necessity. You need to figure out how to service their needs, in a profitable manner.

The fact is many clients want a single point of contact for their financial services. Unless you stay on top of your clients' needs, you could lose them to competitors

Cross-Selling for Success *(continued)*

or miss out on the opportunity to get a greater share of their wallets. And in a world in which time is a scarce commodity, saving clients even a few minutes may be the most valuable service an advisor can offer.

If you haven't embraced cross-selling as one of your key growth strategies, consider this — according to a recent Deloitte and Touche survey, the odds of selling a product to a new customer are 15%, whereas the odds of selling a product to an existing customer are 50%. In addition, it costs six times more to sell to a new customer than to sell to an existing one. If you're looking to run a profitable business, you need to be aware of the value of your time, just as your clients are aware of the value of their time. And these numbers clearly indicate that the most time-efficient way of increasing profitability is by selling new products to existing clients, rather than selling existing products to new clients.

I'd like to explore with you how to successfully cross-sell, and I'll go into a couple of stories about advisors I've worked with who've mastered cross-selling. Before I do that, I want to review the real benefits that cross-selling has on your practice.

- When you cross-sell effectively, your clients will perceive you as their trusted advisor.
- By increasing the breadth and depth of your client relationships, you'll put up a barrier against your competition.
- As the Deloitte and Touche survey shows, cross-selling is the most efficient and cost-effective way to increase productivity.
- It allows you to increase the profitability of each client relationship.
- The more products and services your clients have with you, the more likely they are to stay with you.
- Cross-selling discourages a transactional approach — or product push approach — and encourages working for the client's benefit.

There are four levels of relationship between an advisor and a client.

The first level is product. That's a transactional relationship. If you sell a product to your client, you're working at this very basic level.

The next level is planning, where you work with your client to develop a plan for them.

The third level is ongoing implementation of that plan over a five, ten, fifteen-year period or longer.

And the fourth level is trusted advisor, where your clients come to you for more than just their financial needs. They see you as an ally and partner in their efforts to achieve their larger life goals, of which their financial goals are a part.

As you move your clients up through these levels of relationships, you increase the profitability of the relationship as well as their loyalty to you. Cross-selling is a tool that puts you at the center of your client's financial wheel and enables you to move up the ladder from a product relationship to one of trusted advisor.

At the very least, cross-selling will help you keep your clients away from the competition.

But cross-selling isn't something that you decide to do on a whim. To do it properly, you need to develop a sound business plan that incorporates cross-selling as a key strategy. And as a strategy, it has to support your vision for your business. That's where you really need to start: with your vision of where you want to take your business and your life three years, five years, ten years from now. Then look at your Business Opportunity. What and where is your market? Who do you sell to? What do you sell them? Then develop your Financial Objectives. What are your revenue goals? What are your profit goals?

My father was in the life business for 38 years and one thing he taught me was that the proof is in the numbers. What I've discovered in my work with advisors is that the numbers sometimes take a back seat to activity. Where the opportunity lies is in understanding not only your revenue goals, but also the levers that

Cross-Selling for Success *(continued)*

really drive your business. There are 5 financial levers that measure your ROE (return on effort):

1. Number of Sales
 - How many sales of each product will you make over the next twelve, twenty-four, thirty-six months?
2. Average Sale
 - What is the average revenue for each product you sell?
3. Product Mix
 - What are the various products that you sell to your clients and prospects?
4. Seasonality
 - How will your seasonality and your client's seasonality — such as summer vacations or Christmas holidays — affect when your sales are made?
5. Cyclicalilty
 - How will the current and future economic cycles affect your clients and ultimately you and your business?

You have direct control over the first three levers, but must plan with all five in mind.

I want to go into a couple of stories that will show you how some advisors have implemented extremely effective cross-selling strategies, and how they did so by taking a holistic, enterprise-wide approach, one that demonstrates how all the financial levers interplay and affect one another. Because if you're going to cross-sell effectively, you need to work all the levers properly and you need to know how your marketing and sales and service activities impact those levers so that you can develop deep and profitable relationships with your clients.

Here's a quick story about an advisor, Tom, who established a revenue goal for the year 2003. He wanted to increase his gross revenue by 50%. In assessing the goal Tom realized that his focus needed to shift. Selling his current product mix with the same average sale, and hoping to increase the number of sales wasn't realistic for him. Tom was his business. He knew he couldn't work any more hours in a week. The challenges of servicing his existing client base made it harder to prospect for new clients. One of the things Tom realized was that Critical Illness insurance was a need for many of his key clients.

So Tom made the decision that he would add Critical Illness to his product mix. Simple, right? Well, as many of you might have already experienced this was only the first step in the process, and usually where things break down. Tom needed to develop a marketing strategy for this new product. He needed to decide how he would manage relationships with existing clients and new prospects. Tom also needed to review the resources he could leverage in support of this new product offering.

Tom first developed his marketing strategy. When Tom met with each of his "A" clients for their annual review, critical illness was on every agenda. In doing this, Tom turned a service activity into a marketing activity and, sometimes, into a sales activity. In the spring he started to run concept lunches for his "A" clients, inviting to each lunch 6 clients, and as we all know, there's no such thing as a free lunch! Each client was asked to bring a guest that they thought would benefit from meeting Tom. At the lunch Tom had a doctor speak on the costs of serious illnesses, both financial and emotional. Tom developed a Direct Mail letter and included a CI brochure. Tom also ran seminars, inviting his "B" and "C" clients. He had a representative from the Heart and Stroke Foundation speak about the probability of illnesses; he had a client who had experienced a critical illness speak about the emotional toll; and a company specialist to speak about Critical Illness insurance features and benefits. The result of this process was that Tom sold 106 Critical Illness Policies in the first quarter of 2003. That production alone qualified him for Court of the Table at MDRT.

Now Tom decided that this was a product he was capable of selling. Some of you may not have that same level of comfort. That doesn't mean you can't sell a particular product, it means you have to employ leverage. Archimedes, the ancient Greek mathematician said, "Give me a place to stand and with a lever I will move the whole world." Your leverage may be your suppliers, and their wholesalers. It may be partnering with another advisor who specializes in products in which you don't. The bottom line is, you, personally, don't need to be all things to all clients, but you can be a resource for all of their needs.

Cross-Selling for Success *(continued)*

This approach will still keep you as the primary advisor for your client, but won't take you away from your core focus. We call this approach playing the Infinite Game.

A lot of entrepreneurs play the finite game. They believe that there is only so much business; that they have to get it themselves; and that they cannot depend upon others. Many of them operate as a business of one, bumping up against a ceiling of complexity that limits how much they can produce. They think that in order to be more successful they have to carve out more of the pie.

I'd like to turn to a story about another advisor our firm has worked with.

We first met Lee over a year ago. Lee was one of the top producers in his firm. He was 52 years of age, had been in the business for 23 years and had one assistant. He generated \$600,000 in revenue annually, but for the third year in a row he'd been unable to improve on the previous year's results. He was anxious to break through his revenue barrier.

When we met, Lee told us he hoped to grow his business by ten percent over last year. When we asked Lee what his strategies were for achieving the ten percent growth, he couldn't tell us. Obviously he hadn't formulated any strategies.

Unfortunately, most advisors can say how much they want to make in the next year, but very few of them can say *how* they are going to reach their target.

When we asked Lee what factors contribute to his revenue line, he said the number of cases he sells each year. In fact, as I've said already, there are five key levers in any advisory business, and if you remember them, they are: number of sales, average sale, product mix, seasonality and cyclicity. You need to clearly understand how you are going to work these levers to achieve your revenue and profit goals.

Let's take a look at the first lever: number of sales. Lee generated most of his business through the sale of life insurance cases. He worked in the affluent market, mostly with professionals and business owners. In the previous year, Lee had sold roughly thirty cases, which was typical for him. When we asked him how he felt about selling an additional five cases each year, he rolled his eyes.

Lee felt he already worked hard enough. The majority of his cases were written with new clients and each case took weeks, sometimes months. At his age, he didn't like the idea of putting in longer hours. He'd started to think a lot recently about his work-life balance and had made a decision to find more time for his family. Adding another five cases wasn't realistic.

Since Lee didn't like the idea of working on more cases, we looked at the possibility of raising the average size of his cases. Doing that would mean moving up market.

He already worked with a fairly affluent market and his average case size was around fifteen thousand. During the last few years he had begun to work with a handful of extremely wealthy individuals. The largest insurance case he worked on last year was with one of the owners of a NASDAQ listed company and the premium was \$40,000. But that case had taken nine months. Lee knew that these large cases had long sales cycles.

It was November at the time. What Lee was telling us was that if he wanted to close a large case the next July or August, he was going to have to meet that prospect in the next month or two. So we asked him what the likelihood was that he'd meet a large-case prospect like that within this timeframe, and he said that it was probably low, though he never really knew when they were going to fall into his lap.

We'd looked at two levers already — number of sales and average sale — and at this point, we couldn't, with any conviction, see how Lee was going to move his revenue line for this year. He might have gotten lucky and met the right prospects, or he might not have — but nobody's plan should rely on luck. Lee agreed.

We moved on to the third lever: product mix. Lee had no plans for expanding his product line. In fact, he didn't really like the idea of focusing on product mix as a lever. He thought it contradicted his value-based approach with his clients. He didn't want to become a product-pusher. He didn't want to create a conflict of interest where his agenda got in the way of focusing on the client.

Cross-Selling for Success *(continued)*

What Lee didn't understand was that product mix — or cross-selling — in no way jeopardizes a values-based approach. It enhances it.

Product innovation is usually backward looking. Your clients have needs that are not being met simply because the products to solve those needs don't exist yet. When new products come on the market, your role as an advisor is to survey your client base and see how you can use the new products to help your clients achieve their objectives. Take critical illness insurance, for example. Factors, such as medical improvements, are making it more likely these days that clients will need the protection of critical illness coverage.

Examining your product mix is really a way of defining your business — what are the types of problems you solve? What is the scope of your role as an advisor? Without answering these questions, you're leaving 'product mix' up to chance.

Lee had always seen himself as a specialist and felt that his job was to provide expert life insurance solutions for specific problems. He was confident that few could touch him in his area of expertise. He took a lot of pride in the depth of his knowledge of estate and tax planning and the broad array of life insurance products available in the marketplace. He knew that, for a lot of his clients, he wasn't their only financial advisor, and generally not even their primary financial advisor. But he also knew that many of his clients had unmet financial security needs such as disability coverage, critical illness, tax planning and retirement planning. He had just never seen it as part of his role to help meet those needs. He certainly didn't want to become an expert in all those other areas himself and the thought of having to research product solutions outside of life insurance never appealed to him. But he didn't like the idea that he'd never be able to get beyond his revenue ceiling. He wanted to make more money and he didn't want to have to work harder or spend more time in the business.

Since he didn't want to sell more cases nor move into different markets, he agreed that product mix was probably the easiest lever for him to manipulate. Because his existing

clients had so many unmet needs, they represented significant revenue potential. Cross-selling was clearly the most efficient way to capitalize on that revenue potential.

In order to make any cross-selling strategy work, it has to support a compelling business vision. You can't just apply a haphazard or off-the-cuff approach and expect results. So we asked Lee to look five years out and to tell us what he saw.

After thinking this question through, Lee said that in five years' time he'd like to run a full-service financial advisory firm that generates \$1.5 million in revenue annually.

As part of this transformation into a full-service firm, Lee would expand his product offering in the first year to include disability and critical illness insurance as well as retirement investment planning. He would grow his service offering over the next few years, but this would be his focus for this current year.

To make this cross-selling strategy work, Lee had to do three things:

One — figure out a way to offer a broader range of products that wouldn't take away from his ability to focus on his core business of selling life insurance.

Two — reposition his new, wider service offering with his clientele.

Three — generate revenue through the sale of new products to existing clients that would help him increase his overall revenue by a minimum of ten percent for the year. In fact, he really wanted twenty-percent growth.

Let's look at Lee's first challenge. Since he didn't want to become an expert in other products himself, he knew his only option was to work with other advisors and specialists. Lee knew a disability and critical illness specialist and worked out a referral arrangement with her. He also knew an expert investment advisor and made similar arrangements. Both specialists had their own books of business but, when dealing with Lee's clients, would act as representatives of Lee's firm. He also broached the idea of having them eventually join his firm and both were keen on the idea. The referral arrangements were a first step in Lee's ultimate plan of having these services under his one roof.

Cross-Selling for Success

Lee's next challenge was to reposition himself with his existing client-base as an advisor capable of meeting a wider array of their needs. This was essentially a marketing exercise. Lee had never really had a comprehensive marketing plan, but he knew that there was no way he'd be able to send the message to his clients about his new expanded services without a serious marketing plan and some solid follow-through. We told him that an effective marketing plan must involve a cluster of between four and eight robust promotional activities. You can't just do one-offs. Lee knew that getting his new specialists face to face with his clients would be key, so he decided to focus on things like concept lunches, seminars, and obtaining introductions. He also wanted to round out his marketing with media coverage.

Most of these marketing activities would cost money, and that was a concern for Lee. But we pointed out that though these activities were an expense to his business, they were also an investment in his business. And to ease his mind about the costs, we asked Lee to create financial statements so he could see whether or not he could justify the outlay for his marketing activities. I'm always amazed at how many advisors don't focus on the financial management of their business. We're in the financial services industry, we teach our clients how to gain control over their financial health, but many of us ignore our own financial issues. Lee was like that. He had never had a good handle on his finances, but the exercise of doing his business plan and working on his pro-forma statements really opened his eyes. By mapping out his revenue for the year — by plotting his number of sales, average sale and product mix — he could see the impact each of these levers had on his business. His financials showed that by adding investment products and disability and critical insurance to his business, he would be able to increase his revenue by twenty percent — and for him that meant \$120,000. Doing the financials changed his mindset; he could see the value in proactively investing

in his business. The total costs of his marketing activities over the year were going to cost him \$40,000; by investing \$40,000, he would be able to generate \$120,000. Lee was happy with that return on his investment.

Lee's next challenge was to generate revenue. At his monthly concept lunches and seminars, he showcased his various specialists to groups of his clients. Lee also introduced his specialists to his clients whenever he conducted their annual reviews. Doing this generated lots of leads for his specialists to follow-up on. And the sales came in.

What Lee liked most about this cross-selling strategy was that it didn't take up much of his own time. Once the plan was developed, Lee's assistant did the bulk of the work in organizing the lunches and seminars. And all the follow-up calls were done by the specialists. Lee loved the idea of increasing his revenue without having to invest a lot of his own time.

By the end of the year, Lee was thrilled to report his results: 26 percent growth, or over \$150,000 of additional revenue against an investment of just over \$40,000.

In my experience, most advisors agree that cross-selling presents tremendous opportunities for themselves. They tell me they know that they should be utilizing this strategy. Unfortunately, when we examine their actions, many advisors haven't transitioned from knowing to doing. I hope that when you get back to your offices and review your business strategies, you will consider the long-term impact cross-selling could have on your retention and attraction of clients, as well as on overall revenue and profitability. As we all have heard before, the definition of insanity is doing the same thing over and over and expecting a different result. You have the power to decide who you work with and how. Cross-selling is a key strategy to support this.

Your existing client base contains acres of diamonds. The question you need to answer today is: how are you planning on mining those diamonds?