Mentoring and Dead Files... Turning Lemons into Lemonade

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ACL:

Thank you for that kind introduction. And while we're covering "thank you's" I'd like to thank the Round Table's PDC for inviting us to present today. But most of all I'd like to thank you (our audience) for taking the time to attend. Just about everything I've learned in this business, including matters of personal growth, has come from you – my fellow members of the MDRT; so it's great to have a chance to "give a little" back.

GG:

Yes. Thank you for being here today. I too appreciate the opportunity to give something back to our wonderful association! Now, let's get to the subject at hand.

As you can see, the title of our presentation this afternoon is "Mentoring and Dead Files – Turning Lemons Into Lemonade." Together, Andy and I have executed a business strategy that we think (we hope!) you'll be interested in learning all about. It involved my purchasing a significant piece of Andy's business. Andy earned a decent capital gain and I walked away with a stream of recurring revenue to help finance and capitalize my own start-up firm!

In fact, the transaction was so successful that Andy's repeated the process and I have too! We've both sold off pieces of our business again using the same model. That's a total now of 4 successful transactions in just 4 years! Today, we'd like to share with you the details of this model because we feel the problem of "dead files" is quite common in our business, but that the solution is at least somewhat unique.

ACL:

I think it's best to help define the problem before we get into the solution, so let' go back to the beginning and cover some background information. It all began 6 or 7 years ago at the Top of the Table's annual meeting. I was running around the meetings asking everyone the same question: "how do you get new prospects into your system." Some of you have heard me run through the answers to this "little survey" – there were no new ideas,

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no lightning bolts, no panaceas. The mature practioners were all getting their new business from existing cases, centers of influence and referrals. But the newer members also had a common theme – Seminar Selling. A huge percentage of our younger TOT members were (and still are) in the Seminar business.

Realizing that my target market was "seniors" or what I prefer to call "middle market millionaires," I thought this marketing system would fit nicely and I began experimenting back home in NH.

Well, it worked. And I've always been one to "hit a system hard" when it works!

By 1999 I had my seminar budget (which we shared with a law firm) at over $300k and we produced 60 workshops in our target area – more than 1 every week! At year's end we had tallied 918 fact finds, complete with tax returns, copies of wills, trusts, investment accounts – the whole bit; all completed in our offices and on our terms.

GG:

I'll say it worked. In fact it worked so well it created a problem! Andy had a virtually endless stream of pre-qualified prospects coming in. 918 fact finds! Can you imagine? Meantime I was in an Agency where most of the agents wouldn't see 918 people in a career; never mind in a year's time. I was struggling along in the "transaction" business --- just trying to hang in there and keep my head above water. I had far too few fact finds, none of which were truly pre-qualified. Andy had too many. Sounds like an opportunity, right?

ACL:

Our Round Table tells us time and time again that within every problem lie solutions and opportunities. Greg and I began working together building the jointly owned business that he would eventually purchase.

We want to be sure this afternoon to stick with the subject at hand – the buy out. We realize that there is plenty of information available to you here at the Round Table meeting about Seminar Selling. In fact this marketing model has become quite "mature" in its cycle. In the beginning we were ahead of the curve, the first ones on the block; now it seems everyone is using Seminars to compete for the same prospects. We've had to be creative to make it work – so before moving to the transaction itself, let's take a few moments to go through a "sidebar" if you will - some "transferable tips" we think are *differentiators* for us in our area.

GG:

<u>Profiling</u>: Pre-qualifying and screening clients was probably the most important piece of the puzzle. It changed the mind set of the entire operation – and the client's too. The client quickly realized that we were interviewing them just as much, if not more than they were interviewing us. By profiling criteria such as age, assets, goals, personality and level of client involvement, we were able to begin the process of honing our skills and the services we provided for the type of prospect we wanted to work with.

Sticking to the discipline and selecting out prospects is, as the President says, "hard work." After all the industry training and bias toward transactions they become an addiction – and kicking the habit is tough, but critical.

ACL:

<u>Centers of Influence</u>: There's a lot of talk here at the annual meeting about working with "centers" – whether they be an attorney, CPA or even the local barber. In fact this was yet another "common theme" amongst all members (new and old) of the TOT. The sheer volume of advertising and marketing in our community created a "name" for us in the Estate Planning community – and it gave us an air of confidence too. We were able to develop a strategic alliance with the largest Estate Planning firm in our State.

We cross referred to an incredible degree. Virtually every case we took on needed legal work and they gave us unlimited access to their filing cabinets. Further, they gave us great references to their own clientele – including a video/DVD taped endorsement and personal invitations from the attorneys to our workshops.

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GG:

Subject Matter: The material we cover at the seminar is critical. We've always used actual content to make the program, and therefore the introduction to the firm unique. For example, when everyone else was doing Estate Tax workshops, we were concentrating on income taxes. In fact, much of our growth in the beginning came from being "early on the scene" with recommendations on Roth conversions and stretch IRA's.

ACL:

Para-planner: Another thing we did that was a bit unusual is hired a "Para-planner" to take the first portion of the Fact Find. We really just stumbled into this idea out of necessity. How could we physically conduct so many interviews? All of the meetings were held in our offices, during normal business hours. All prospective clients were required to meet with the Para-planner first. Hard facts and data were gathered. Then the advisor would conduct the second half of the interview to go through the "in between the lines" emotional questions. This system, while efficient, truly differentiated us from the competition that was chasing these people around at night, bothering them at the proverbial kitchen table. Early on, we transitioned from the transaction sale to the process sale; from closing techniques to the "no close close." Our delivery rate on closing as a result of the process was incredible. Actually, it still is.

GG:

"Smart" Offices: We soon realized that our typical prospect liked having a "local contact." Plus we wanted to spread the "net" we were casting a little wider. Soon we literally took out a map and drew a circle around our homes with a compass – about a 40 minute drive out.

ACL:

A semi-circle, Greg; where we live, we have the Atlantic Ocean on one side!

GG:

In this circle - O.K. semi-circle - we ultimately set up 9 office locations. These were "executive suite" style arrangements. You know, with a receptionist, fax machine, telephone, conference room and a little cubby hole office out in the back. The added value we found with this system was the fact that while our best competitors were in Boston, none of our clients wanted to venture downtown. Have you ever heard of the Big Dig? Plus the stationary and web site started to look pretty impressive and our Office/Rental budget was right in line with benchmarking studies.

How many hours per week do you spend driving from house to house or business to business for your appointments? In hockey, baseball or any other sport is it better to play a "home" or "away" game? Is it better to allow these clients to consult on their turf or to have them come to you?

I suspect many people in the audience do not use the office efficiently for client interviews. Your office is your chance to make your intangible business tangible. The prospect can see the office, the staff and other colleagues. This allows you to immediately begin building a warm atmosphere and a team approach. This can not be accomplished at on their turf. On their turf interruptions are out of your control.

Why don't you have the meetings in your conference room or in your office? The Answer is simple; because you do not ask. Invite them in. Actually say "I would like to invite you to come to my office." It is an invitation and they will never say no. Meetings in the office allow for the "No close close" as Andy mentioned a few minutes ago. Here is how it works:

Making life changing major decisions is stressful - especially on someone else's turf. There is a significant amount of angst that goes into hiring an advisor. And the conference room environment is inconvenient for a spousal "chat." Do you think the clients want to jump into business with you without first discussing this decision privately? This is the reason we get objections. The client may use a "smokescreen" excuse, but their concern is legitimate.

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When you are close to this phase of the meeting simply excuse yourself, get up and leave. Literally. Make an excuse – a glass of water, bathroom break, whatever … The clients could use some privacy to "discuss "the course of action and human nature tells us that that conversation will begin just as soon as you leave the room and close the door.

Stay out for several minutes. I will tell you this; the first time you try this you will think 5 seconds is too long. Stay away. Go read an e mail or two. Give them some time. Come back in and nine out of 10 times as you sit and apologize they will say "what's the next step" – they've just closed themselves for you.

This is the "no close close." Try it. I use it every day and the impact has been tremendous.

ACL:

Even today, with all the competition, these techniques still allow us to be a bit different. But 5 years ago, we were knocking the socks off this market! Let's have a look at some of the numbers.

As I mentioned earlier, we did 60 workshops in '99. This led to 3004 attendees (as you can see, an average of around 50 people per meeting – a perfect size for what we're trying to accomplish). The synergy created in these sessions was awesome. Attendees had the opportunity to see that they were not alone in the planning issues they faced and this "strength in numbers" phenomenon made it that much easier to schedule appointments. Of the 3004 in attendance 1581 "buying units" indicated they were interested in an appointment. Of course, there's significant fall out after the excitement of the meeting. Still, 918 actually came in with the facts.

Greg or I would not have a consultation unless the prospect provided the information requested during the Fact Find meeting. Insuring the prospect discloses all of the information upfront is important for three important reasons. First, we know and the prospect understands that this is serious business. Second, it allows the " profiling " discussed earlier to occur so we would know who would be best suited for the service we provided. Last, if the prospect would not provide the information they would automatically select themselves out of our process.

We selected out a few (attorney referrals, tire kickers, that type of thing) and had closing interviews with 549. This resulted in 228 brand new, fee paying clients. This stuff really works!

Today, are our numbers at the workshops dropping off a little? Sure. Are we at "saturation" point with this system? Not even close!

GG:

Originally all this growth was fantastic. Andy was able to cherry pick the best cases and I was swimming with clients at my own level. I was turning enough of a profit to cover the marketing costs for both sides.

We split our business 1/3, 1/3, 1/3 across the board.

ACL:

Yes, this was a bastardization of the "Finder, Grinder, Minder" concept I had learned once again – from my friends at the Round Table. The finder is the rainmaker, the grinder does the case work and sells the deal and then the minder (our office team in this case) does the service work.

GG:

Soon though, we began to have our share of growing pains. Eventually Andy came to a turning point and wanted to move on. That's when we structured the buy out. Most of us enter this business as an entrepreneur to run our shops as we see fit. This was always a concern of Andy and myself and as we continued growing the " joint venture" we both knew that there would come a day that we would want to cut the umbilical cord so I could fly on my own. We both agreed that separating the check book and the clients was necessary.

ACL:

I feel very strongly that every producer in our business comes to a cross roads in this area. You have to decide – do you want to become a business owner or stay an advisor? Do you want to grow horizontally or vertically? Do you

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want to be involved in a business that's a "going concern" or is a "lifestyle" practice best for you? The longer you wait to figure this out, the more it costs you in the long run. I was answering the "former" to each question. I enjoyed the work with the clients more than managing the office. And the "lifestyle" opportunities is why I'm in this business. It always has been…

GG:

Coincidentally at this time, the entire industry was getting "worked up" because producers finally came to the realization that their practice had some actual economic value beyond goodwill. Virtually everyone was reading, hearing or actually transacting a "capital event" of one sort or another. We looked at all the models quite carefully and retained a consultant who was an "advisor to advisors."

Specifically we reviewed:

- Roll up opportunities from companies specializing in that business. National Financial Partners (NFP) would be a good example here.
- Selling out to a wire house like Merrill or Smith Barney
- Selling to a regional bank
- Strategic alliances or mergers with local competitors

ACL:

None of these transactions worked for us. But the final method did: selling to a colleague within the firm. We negotiated our deal based on averages of what we were being offered in the other models. After we settled on a multiple, Greg was able to go to the bank with his business plan. He "spun off" the clients he was working with into an entirely separate entity and independent RIA. It takes a lot of guts to go out on your own. Especially with a new home, three young children and at the young age of 32!

GG:

One thing that helps though is the recurring revenue. What it's actually labeled is unimportant. You can call it group renewals, 12b-1 commissions, "levelized compensation or whatever – the key is to have non-transaction based dollars coming into the firm on a consistent basis. I doubt the bank would have even looked at this deal without the recurring revenue. Plus, establishing a steady flow of revenue prevented many of the ills I was experiencing in this business. Big caseitis, not being able to plan for my own financial affairs, stress at home – much of this was caused by my erratic cash flow.

ACL:

But let's not knock commissions either. MDRT is all about productivity –and I, for one, hope it stays that way! Once you're positioned as a true advisor, as an advocate for the client and the family, the product sale is like falling off a log. Indeed, after the buy out Greg's production jumped significantly and he was able to qualify for the Court of the Table for the first time!

On my end, I was able to concentrate on the higher net worth cases, but treat the lesser ones with the dignity and respect they deserve – buy referring them out to yet another "mentee." Since Greg and I had our "friendly divorce" three years ago, both of us have repeated the process…

GG:

The model worked, so we both worked the model again. I became a mentor and partnered with MDRT member Chuck Stephen – who's out there in the audience somewhere. We decided Chuck would buy out his interest in two chunks; one has already transpired and the next is scheduled for the Fall.

ACL:

And for those of you that are from the US, don't forget that these transactions, if properly structured, can be taxed as capital gains as opposed to ordinary income – a significant advantage. On my second transaction though, for a variety of reasons, I opted out of the Gain and settled for an equity interest in the newly created firm.

My friend's new company is paying me a consulting fee/salary + a 49% share of the profits. Already the shares are valued at over $1m! And the sky is the limit!

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GG:

Yes. If you're working with the right people including mentors, mentees, clients and staff, the sky truly is the limit. Again, let's review some numbers:

Today, Andrew Lord & Co has assets under management of $90m +. Total earnings are in the $1.6m range. Now remember, this is <u>after</u> carving off two separate companies!

AUM at Andy's "equity only" firm, Lord & Sanborn, Inc. is around $30m with revenue of $425,000.

My company, Affinity Investment Group, LLC has AUM of over $60m and is grossing $700k (again, this is after a spin off is deducted…)

Chuck's firm, Glenwood Investment Group, LLC, has AUM of $20m and total gross of $250k.

Using today's multiples and valuations, these entities represent a total market capitalization in the vicinity of $11.6m!

As Andy said, this stuff really works!!

ACL:

And the reason it works so well is that the techniques we've used help to solve a legitimate industry problem in an honest way…

We all know that as time goes on our knowledge and therefore our practices grow. But should the clients we started with or that we "select out" during our prospecting process simply be thrown away as if they have no value? Who came up with the idea of "Dead Files" anyway?

As a professional it is difficult to raise the bar on a profile and leave so many potential clients behind and for Greg and me it would have been like leaving money on the table. This is one of the reasons why establishing the mentor – mentee relationship beyond "coaching" works so well. The mentor wins because he can continually raise his profile and the mentee wins because he has a continuous flow of prospects to help out.

We both have a deeply held belief that money has a lifeblood of it's own –that it will move in the direction that deserves it most. Doing the right thing matters; and it's rewarded.

Capitalism works.

What separates members of the MDRT from the rest of the pack is that we care.

We hope today, we've shown you a way to, in a spirit of caring and giving, convert your Dead Files – And Turn Lemons Into Lemonade.