

(Where is the) Low hanging fruit in 2011

by Sebastian Dovey, Managing Partner, Scorpio Partnership

Last month I was asked by an experienced senior private banker in Philadelphia to give some guidance on how he could grow in 2011 and beyond. He noted that he had picked all the low hanging fruit available to him by tapping his personal network of friends and associates. His worry was he did not know what to do next. The question is in fact, worryingly at times, an all too frequent one we get asked at Scorpio Partnership.

This time, I suggested the following four answers to help this situation. Option one: find another tree. Option two: get an axe. Option three: go to another wood. Option four, and our personal favourite for the industry: start planting seeds. Remarkably, just saying this seemed to relax the banker but I feel I owe him and the industry some more explanation of this new route to generating new business.

Option one: find another tree. If the view is that growth in the market is purely around the low hanging fruit and there should be no effort to do any more than this then the obligation is to find other trees with similar conditions. Typically, the business model for this involves hiring more bankers with pre-existing books or contacts in the market segment that the model is suited to. Historically, this is the way of growth for the industry. We are not entirely comfortable with this and neither are many senior bankers in the market. 2010 has been no exception to this unease. Rising costs, falling margins and "net no money" are not features which support this approach.

However, since it is perceived as the "easiest" and even (wrongly) lowest risk option, bankers and banks continue to work this approach. Our observation is that from client and advisor insight we do around the world this approach is becoming bankrupt. Worryingly, the question about low hanging fruit is being asked more and more so perhaps the crop of opportunities are drying up. We would not go that far, but we would say if you are in a business where you want low hanging fruit you may have to put a lot more effort in 2011 in to actively finding new trees. They are out there. Our research shows this. They need to be harvested. Research shows this too. The question remains whether the private banker is the best placed harvester.

Option two: get an axe. This seemed a radical suggestion at the time but it is basically logical. Many wealth managers take the low hanging fruit (the first portfolio) and then leave the client to their own devices. In a low yield environment as the last 24 months this is perhaps not the wisest approach. Indeed, we would suggest that if you take the approach of upselling, cross-selling or a new phrase we like called deep-selling then there is more chance.

The logic follows that the banker does not have to travel further to get the business but just has to make more effort to climb the tree of wealth. Personally, we believe that chopping the tree is less effective than learning how to climb the tree (but we needed an option that appealed to the lumberjack hidden in every banker). Either way, the concept approach is that improving the amount of sales through getting to know the client even better, and the network of that client too, is going to yield more financial fruit. Again, insight in to the current interactions of HNWs around the world with their wealth manager show a startling statistic - more than half of the industry client remark they have more business to do with the industry but they have not been asked for it.

Even more worryingly, nearly three quarters state they have never been asked for a referral. And yet the majority of private bank's growth strategies the world over are based on referrals. Something does not fit here. So, actually re-evaluating the tree and putting more effort into reaching the higher branches would make sense.

Option three: go to another wood. This is the challenging one for more and more private banks. Venturing out of the comfort zone of the markets which have evolved so successfully for them is not popular. Some are doing it by extending their franchises into new markets - typically emerging markets - but often they are looking for the same type of business. I suspect many of you who have got this far in the article will suggest that would be logical enough. I agree with the sentiment but suggest it might be short sighted. The majority

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of "low hanging fruit" business in this industry is fundamentally transaction (also often known as advisory or brokerage) business.

Our concern, based on data we are collecting from international new markets around the world would suggest very strongly that the advisory business is actually only a small portion of the real opportunity. This is unpopular with many of the more seasoned private bankers who have built their businesses and reputations around the notion that transactions and their way of business is the only way. However, insight is again suggesting that there would be another way.

So, when we are suggesting find another wood, we actually would want the firm to not just find another similar species of tree but actually to consider there might be other woods that are worth harvesting. To put it simply for those that are getting tired of all these metaphors - target more cost effective segments applying the technology and investment skills to better results. The real growth in the market is the main wealth management market - some say this is premier. Call it what it is - the fund-based portfolio management model solutions.

We are actually strongly in favour of searching out for new woods since there is a lot of the wealth market still to be explored. Currently, the industry only serves just over 40% of the potential opportunity according to the Global Private Banking Benchmark in 2010. Critically, there is an estimated USD10 trillion in eligible wealth assets not currently managed by the wealth industry which could be - definitely worth the effort. In fact, it is not so much look for another wood, but recognise there is an actual park forest out there still to be examined.

Option four: start planting seeds. So, this is the real differentiator in our view. The industry is fundamentally premised on the assumption that clients will know when to come to the wealth managers and it is just a case of waiting for the call. The reality is this is either not going to happen as much or if it does, there are plenty of other options that might prevent the next client from coming specifically to an individual firm.

Choice is king, but choice is also an enemy for any commercial operator that does little to actively express themselves in the market. In our view, and again based on sustained client insight tracking the changing consumer patterns in financial services for wealth management, we are of the view the industry must recognise we are now in a demand-led market. This means that to differentiate and benefit from this differentiation, banks will have to focus on stimulating demand.

Put simply, ask yourself why should a client actively think about coming to a firm such as yours to be wealth managed. When we ask investors, they are not that sure themselves. It is not so much that they do not want to be wealth managed, but they do not know what should be managed, when and who to choose. This requires more effort in terms of planting seeds. This means more effort around branding, identity development and market outreach.

The knee jerk reaction would be to increase the corporate entertainment budget of the individual sales people - this is not what we are suggesting at all. The real way forward is for the wealth manager itself to drive the demand and "feed" the bankers the leads. This has the added benefit of wresting the control away from the sales man and making the future more predictable and brighter. Crucially, in planting seeds, more people will benefit longer term.

Ultimately, when the banker from Philadelphia went off to get another drink I think he was satisfied and motivated. He agreed that eating the fruit was short-termist. He recognised that planting seeds was the best for him and for the industry. But, best of all, he suggested if he could learn how to climb the tree then not only would he increase the harvest, he might be able to get a better view of the forest beyond.

For those who hate metaphors, I apologise but in reality when you are asked to make predictions it is impossible and we thought this approach would be a more thought provoking way for all too consider their next steps in 2011. Good luck.



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