Introducing Fundamental Changes to a Service Delivery Model: "Lessons from a Financial Advisory Organization"

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ABSTRACT

Trends change, companies grow, merge and folds, things occur at an unusually rapid pace and clients’ expectations of services value and costs take new form every day. The information for this research was gathered mainly between December and April of 2002 and reflects the situation as it was that time. The biggest change of all to occur during 2001 and 2002 was the collapse of share prices in many sectors, the fall of Enron and Global Crossing, and SEC probe of the way investment banks link research to brokerage.

This environment creates tremendous pressure on financial institutions to improve business operations, not through cost cutting measures, but through a critical review of the way services are delivered. Investment banks in particular, are under scrutiny to shift their strategy from product to customer centric. We identified 2 reasons behind the impetus for shifting strategies. First, the cyclical nature of the financial markets requires an unusual flexibility in deploying and folding strategic assets with minimum damage to operations. Second, the competition among financial services to attract High Net Worth Individuals keeps extending the core services offered to clients. As a result, financial services are taking high risks to change the way business is delivered in order to respond to client changing needs; the service has become driven by “clients’ expectations for more and more services for less and less costs”.

This case study assesses how a financial services firm introduces fundamental change to the way it does business in an attempt to respond to new market pressures. The case analyzes to what extent strategy is aligned with execution and evaluates service delivery changes from the lens of the Clients, Financial Advisors, and Client Associates.

The findings of the study are based on the extensive use of operation research, marketing, and management models. The use of system dynamics, service delivery, and gap models identified various factors critical for successfully implementing changes. The results of intensive field surveys offered valuable data for creating a decision support system to our recommendations.

Thesis Supervisor: Gabriel R. Bitran
Title: Nippon Telephone and Telegraph Professor of Management, Deputy Dean
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We also like to express our gratitude to the generous support and encouragements provided by Millennium Development namely Saad Hariri, Nader Hariri, and Oussama Kabbani; and by China International Capital Corporation Limited namely its executive management.

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1.1 Thesis objective

The development of this thesis is part of a collaborative relationship between the MIT Sloan School of Management and a leading company in the financial advisory services industry, which we identify here as IBPCG. The Sloan School of Management and IBPCG together defined the thesis' objectives, which is basically to evaluate an IBPCG program designed to change the firm's service delivery model. We refer to this program as "Program Alpha."

IBPCG is a successful full service firm in the private client industry engaged in all aspects of the investment process, from initial decision through execution and follow-up. Using a financial advisor (FA) as a client's contact point, IBPCG recommends investment opportunities, provides research reports, executes trades, offers customer service support, and issues monthly reporting statements.

Program Alpha is a new business practice model designed to increase service quality and productivity of IBPCG financial advisors by implementing structured time management and a disciplined client and prospect contact process. The program has been implemented and is being rolled in select regions across the country.

This thesis has three goals in evaluating the effectiveness of Program Alpha.

First, we evaluate whether the Program Alpha is effective in improving service delivery. We measure the business impact of Program Alpha on the behavior of clients with specific regard to their assets with IBPCG and their satisfaction with IBPCG's service. We also assess Program Alpha's impact on the behavior of financial advisors with regard to their productivity.

Second, we determine whether or not IBPCG should roll out Program Alpha to the entire firm. Given the answer to this question is positive, we look at how Program Alpha should be rolled out. We look at this rollout from a concept design level and a tactical level. At the concept design level, we focus on how well Program Alpha serves IBPCG's new strategy, which is aimed at sustaining IBPCG as an industry leader by introducing the fundamental changes to its business model to address the intense competition in a dynamic market. At the tactical level, we evaluate how well the program could be accepted and adopted by the financial advisors.
Chapter 1 Introduction
1.2 Research approach

Our research had three phases. In the first phase, we focused on the perception of the Program Alpha and analytical data collection. In this phase, we adopted three different, but complementary, research methodologies. First, we reviewed all relevant literature, building a thorough understanding of the topics covered in this project and identifying what academics, consultants and business managers think about these issues. Second, in cooperation with the research team from IBPCG, we met and interviewed IBPCG’s personnel and management during branch offices visits, focus groups and working sessions. Third, with the help of IBPCG’s marketing research group, we developed telephone questionnaires focused on the attitudinal impact of Program Alpha on both financial advisors (FAs) and clients.

The second phase involved the quantitative and qualitative analyses of the data collected. The Management Science team at IBPCG led the quantitative analysis. The analysis was based on existing financial data and other hard metrics obtained directly from IBPCG’s internal systems. The IBPCG Market Research and MIT teams conducted the qualitative analysis jointly. The data for the qualitative analysis were from the individual interviews, focus groups, and telephone surveys.

The MIT team conducted the third phase, which analyzed the results from the first two phases by applying MIT’s service management concepts and system dynamic theory, in order to develop the conclusions and recommendations.

1.3 Thesis structure

The thesis starts with an understanding of the market and business elements that motivated IBPCG to develop Program Alpha. Chapter 2 is based on previously published market overview and history of the financial services industry as well as the interviews with IBPCG personnel. We put Program Alpha in the context of the IBPCG’s adoption of a new strategy in response to the changing market conditions.

Chapter 3 examines Program Alpha more closely by reviewing IBPCG’s internal training menu and summarizing the interviews and meetings with the IBPCG personnel. We wanted to know what to expect from Alpha before we started measuring its success. We did not evaluate Program Alpha by only focusing on the “indirect results”, i.e. those results that cannot be
completely delivered by Program Alpha itself. Other service factors should be also improved to achieve program goals.

In Chapter 4, we analyze the results from the quantitative and qualitative surveys. These surveys outline FAs and CAs (client associates) perceptions of Program Alpha as a concept and as a tool to improve the delivery of services. The analyses included the measurement of several attributes in the service industry such as tangibility, perishability, simultaneity, transferability, and homogeneity. These attributes will be addressed in detail later in Chapter 5. The surveys included clients served by FAs under the Alpha program. The research tools focused on measuring the client perceptions of the program, as well as their expectations of the level of service IBPCG should be offering. The survey results were compiled in a manner to preserve the statistical validity of the data given the relative size of the sample. The survey results were later compared against industry standards and market conditions.

The overall findings of the surveys point out that FAs, CAs, and clients endorsed the Program Alpha theory. However, some consistency problems related to Program Alpha rollout have hampered full program implementation. Moreover, we noted differences between offices in terms of level of implementation of Program Alpha and user satisfaction with the program. We did not see clear signals of positive impact for certain "indirect results," such as improvement on clients' investment performance, which is heavily influenced by the market situation and FAs' skills.

In Chapter 5, we apply the service delivery model developed by Professor Gabriel Bitran and Maureen Lojo at MIT for analyzing the strengths and weaknesses of firms engaged in providing services. This model divides the service operation into three segments: external environment, internal environment and the interface. We analyze the changes of the service model after the introduction of Program Alpha to see conceptually if and how Alpha improves the service delivery at IBPCG. The analyses of the different adoption models of Program Alpha and the distinguishing characteristics of service operations deepened our study about the concept of the program. In addition, these analyses indicated some operational problems in the implementation of Alpha.

In Chapter 6, we propose an analytical framework based on System Dynamics for interpretation of data collected through focus groups, management interviews and telephone surveys. The objective of this approach is to explore first- and second-order effects of
implementation of Program Alpha throughout several districts, from operational, behavioral and organizational points of view. We introduce several models aimed at enhancing the understanding of dynamic complexity, by exploring the impacts of indirect relationships between elements of the system and time-delayed effects of the implementation.

Chapter 7 introduces the "Gap Model," as another important framework to understand the gaps between client perceptions and expectations. In this chapter, we focus on the unavoidable gaps that occur when introducing certain changes in a service organization. In terms of Program Alpha, we identified problems with existing gaps that can harm the smooth rollout of the program and suggested ways to reduce or avoid those problems.

Chapter 8 summarizes findings and reflects them into two sets of operational and strategic recommendations. The overall conclusion we drew for the 360° state of the system analysis focused on addressing the three goals in evaluating the effectiveness of Program Alpha.

The following responses to these goals are aggregated from the myriad analyses conducted of all systems, variables, levers and hurdles.

Program Alpha is somewhat effective and will undoubtedly improve IBPCG way of delivering service to high-net-worth individuals (HNWI).

Compared to current standards in the service industry, Alpha is well overdue; and should be rolled out yesterday.

Create national implementation team, fix glitches, introduce compliance metrics, create management incentives, and improve technical support.

The chapter and thesis concludes with specific recommendations on how to rollout Program Alpha across the organization.
Chapter 2 Market analysis: creating Program Alpha

In order to provide a proper context for IBPCG’s Program Alpha, we must conduct a market overview as well as a historical review of IBPCG. Alpha was developed as a mechanism to introduce changes to the traditional service delivery channel, which in turn would help IBPCG to implement a new strategy in the changing financial services environment. Other firms in the service industries that introduced changes have discovered that these changes hold high risks, but in most cases, the firms had no choice. Opting not to change in an environment that was itself rapid transforming was seen as even more risky than introducing changes.

According to the theory of service management, one important factor in decreasing the risks is to reduce the “gaps” between the perception and the reality in the process of implementing a new business strategy. The analysis of these gaps is the focal point of this paper. Before we can do this, however, we need to look at IBPCG within the context of the entire market and examine how the changing landscape of the market forced IBPCG to respond. Understanding the business and market elements behind the introduction of fundamental changes to IBPCG business model, we can better understand the objectives of IBPCG’s new strategy.

In this chapter we review some of the challenges that full service firms such as IBPCG have been facing during the last few decades. We also describe IBPCG’s vision and strategy. In addition, we apply a framework developed by an MIT professor to understand more clearly, where IBPCG is positioned in term of its strategy versus the market pressure.

To perform the market overview and the history review of IBPCG, we relied on two primary sources: interviews with IBPCG personnel and sections of the literature review presented in Chapter 1. Two important articles formed the basis for our discussion about the changing environment in financial services: the Harvard Business School’s case (HBS case)\(^1\) of a retail brokerage (the brokerage firm) and the PriceWaterhouseCooper’s market survey report (PWC report)\(^2\).

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\(^1\) HBS Case N9-500-090
\(^2\) PriceWaterhouseCoopers 2000 North American Private Banking / Wealth Management Survey

Total 23 institutions in America and Canada participated in the survey, which was conducted February to May 2000. Institutions included in the survey comprised 5 types: traditional independent private bank / wealth managers, divisions within money center banks, money management complexes, division within regional retail banks and other financial service firms. Majority of the participants are large, controlling assets of $50 billion or more. About 40 percent are middle-sized, with assets of $10 to 50 billion, while a minority with assets under $10 billion.
2.1 Challenges to full service firms from the changing environment

Since the early 1900s, full service firms have consistently been successful in the private client industry. As the name implies, a full service firm engaged in all aspects of a client’s investment process, from the initial decision through execution and follow-up. Using a financial advisor (FA) as the client contact point, full service firms recommended investment opportunities, provided research reports, executed trades, offered customer service support, and issued monthly reporting statements. Because all services were delivered through the FAs who served clients with varying requirements, the traditional business model of a full service firm was regarded as “one-to-all”.

In this model, the service fee was charged on transaction basis, in that a commission was certain percentage of the transaction amount. No additional fees were levied for other services such as advice or access to the research products. The cost of other services had to be covered by commissions, which were quite high but compatible to the sound advice and excellent research materials.

The industry de-regulation that occurred in the mid-1970s stimulated changes to the market. These changes were reinforced by the rapid development in telecommunication technology in 1990s. The major resultant challenges came from two sources: the threat from low-cost, new entrants and the increased diversity of clients.

2.1.1 Low cost new entrants – challenge to the fee-charge model

The de-regulation of the industry in the 1970s provided market opportunities for many new entrants. Many large financial service firms participated in the competition either by acquiring or establishing new business sectors. At the same time, other entrants also came into the market with different business models than the full-service firms. These business models gave new entrants the opportunity to charge a much lower service charge. The two main types of the new entrants were discount brokers (or discounters) and electronic trading firms.

Discount brokers emerged after the de-regulation of commissions in May of 1975. Several brokerage firms, particularly Charles Schwab, cut the usual fee of a full-service firm by almost half. Differentiated from the full-service firm, the discounters did not have to provide first class research or an advice service. As a consequence, they had more room to reduce the fee charge. They took the full advantage of the increased flow of financial information provided by the rapidly developing media such as newspapers, financial related cable TV, and magazines. The
more readily available financial information increased the confidence of the sophisticated
investors. More and more investors felt comfortable making investment decisions based their
own judgment after doing their own analysis of the public financial information. This emerging
do-it-yourself investor segment began the switch to discounters, taking advantage of the low cost.

The rapid development of telecommunications, especially the Internet, also brought dramatic
changes to the financial services industry. Electronic trading firms emerged, offering much
lower service charges. The business model of electronic trading firms provided even more
savings in cost because they not only limited their service area but also released the cost of
maintaining the branch offices. According to the literature, The cost savings offered by
electronic trading firms were so attractive that by 1999 nearly 31% of all retail trades were
conducted online. The electronic trading firms suddenly became a big threat to full-service firms.

Facing the pressure from the new competitors, full-service firms had to start implementing a
new business model. This new model would afford the full service firms the ability to reduce
their fees and also to sustain the competitive advantage of the full range of services. Many full-
service firms began to shift from a fee-charge system of transaction-based to asset-based (fee-
base model). The fee-base model charges a major fee managed by the firm. In practice, the fee-
charge model could evolve into many fee calculation formulas based on the businesses conducted.
A differing trait of the new model is that the income of the firms and the FAs both rely more on
the assets’ size than on the transaction volume conducted by the clients. This has established an
effective ceiling to the fees related to the account size.

The fee-charge model has had a big impact on business management. As shown in Figure 1,
the old model felt margin pressure mainly from increasing fixed costs; the new model splits the
pressure between both fixed costs and variable costs.

In the past, to solve the margin problem, the full service firms had to increase their asset size
to improve their profitability, which sometimes had the firms emphasizing the total assets size
too much, regardless of the quality of the account. Here, low quality accounts are small size
accounts, which do not bring much revenue but increase both the fixed and variable costs. As a
result, the cost might increase even faster, which would in turn reduce the profitability.
The Traditional Model

The New Model

Figure 1 The impact of fee-charge model to margin
The new model has also affected the FA's behavior. Under the old model, FAs and their compensation were focused on transactions. The new model focuses more on providing advice, guidance, and service. It better aligns the goals of the FAs and clients, because as assets increase, both win. How to direct and help FAs to fit into the new model are other challenges that the full-service firms face when introducing the new fee-charge model.

2.1.2 Diversity of customers – “One-to-all” model could not satisfy all

The technological development brought not only new ways of doing business but also new wealth to the market. PWC report of 2000 showed that 43% of the clients were the first generation wealth, so-called “new money”. It also forecasted that the percentage of the “new money” would increase to 53% in three years. The first generation wealth owners have different requirements than those of traditional family wealth. Burkhard Varnholt, managing director responsible for investor research and Fund Lab at Credit Suisse Private Banking, said:

“The new money, the modern client, is more demanding, more sophisticated, knows more about what he wants and is less loyal to the fund manager.”

3

Usually “new money” Investors are more focused on growth than traditional ones. “New money” Investors have acquired their wealth as being owners or businesses executives. Because their wealth is usually concentrated in the equity of one company, the major requirement from them is to hedge their risks. Facing those challenges, the full service firms had to consider some issues such as whether or not the one-to-all service model still could satisfy all, and how to attract and retain the growing “new money” investors. PWC report listed “the revisit of organization’s strategy” as the top single issue among the ten key issues concerning the CEOs of the survey participants. The following question was considered: “Do the demands of attracting and servicing “new money” require a new business model?”

While new wealth owners are seeking aggressive growth and risk hedging, sophisticated investors want to enjoy the low cost of do-it-yourself trading as mentioned in the previous section. The traditional investors move to opposite direction.

3 Harder to Maint International Herald Tribune 10/28/1999 SPECIAL REPORT Making Sure Service Keeps Clients Happy Customer Loyalty Is Harder to Maintain
As the bubble of dot-com industry burst, economy recession followed, and the volatility of the market forced many traditional clients to seek more conservative and long-term investment strategies. They required more personalized services and intended to rely more on FA’s professional advice now.

The traditional one-to-all model hardly satisfied various needs from different kinds clients. In the HBS Case, the client segments in the market were described as three major types:

- **“Self-directed”**: Active, do-it-yourself investors that preferred to manage their own investment portfolio; younger, technologically savvy, and predominantly male, these investors were focused on growth. They were more likely to have a discount or electronic brokerage account than a relationship with a full service firm.

- **“Validators”**: Those who sought advice in creating and managing their investment portfolio. The range of advice varied, with some investors wanting an expert’s review of their own decisions and other relying on the advice of an investment professional to shape their portfolio. Generally more risk adverse and conservative in their portfolios, many in this group were women and retirees who wanted the financial planning and security of dealing with a professional advisor. Well over half of these investors had a relationship with a full service firm, but increasingly many also had accounts with discount or electronic brokerage firms.

- **“Delegates”**: Those slightly older and predominantly male did not get involved in their personal finances, preferring to delegate those activities to a financial professional. These investors often had relationships with full service firms and mutual fund companies.

The full-service firm’s traditional business model would only fit the needs of the “delegates” and about half of the “validators”. More and more customers opened accounts with discounters or electronic trading firms. This threat forced the full-service firms to diversify their service delivery models so they could attract and retain more customers.

The shift from a business model focusing on a single service delivery channel to that which incorporated multiple channels was more evolutionary than revolutionary. The main competencies of the full-service firms were not changing. The purpose of the shift was to improve the productivity by providing the most efficient way to serve the clients. In most of the
cases, two strategies were adopted while shifting to multiple service delivery channels. One was to establish distribution channels to compete with those new entrants. With a cost comparable to that offered by the new channels and the addition of sound research, plentiful products, efficient executions, and a full range of other services, the full service firms regained confidence that they could beat the competition. The other strategy was to improve the satisfaction of the high value clients. This was the most efficient way to improve productivity since the cost of recruiting a new client is much higher than the cost of maintaining an existing one.

Many firms realized that the quality of service and personal relationships are key to client satisfaction. According to PWC Report and illustrated in Figure 2, the primary reason for clients to leave was “dissatisfaction with service”. The other two major reasons were “inadequate investment performance” and “following key staff to other firms”.

![Histogram](http://example.com/histogram.png)

**Figure 2 The top reasons for clients to leave**

“Lack of proactive advice” was ranked number four. While performance is always subject to market fluctuations, quality of service is not. Improving the quality of service can help the firm to retain and attract clients especially when experiencing the bear market.
As Steve Gresham, executive vice president-private client group of Phoenix Investment Partners, Ltd., pointed out:

"The truth is client contact remains the primary driver of client satisfaction, according to countless surveys of affluent investors. Prince & Associates, in work conducted for Institutional Investor, found that affluent investors who say they are “highly satisfied” with their primary financial advisor have an average of 14 contacts with that advisor over six months. “Contact” can be a telephone call, a personal meeting, or even a personalized letter or email. 4

2.2 The firm new strategy

With the background of the changing environment and the pressure to the traditional full service firms, we now look at IBPCG to see how it responded to these challenges. Later we will understand how the Program Alpha was introduced to support to the firm’s new strategy.

2.2.1 IBPCG fast response with focus on pricing and service delivery channels

As a leading full-service firm, IBPCG experienced a lot of pressure from the changing environment. Before 1996, it had focused on offering complete financial planning packages through its FAs. Through a very large sales force of FAs in approximately 750 offices throughout the US, the firm provided wide financial service and products, sound advice and effective executions.

Traditionally success in the industry was defined by the growth in accounts, assets and business. According to this view, IBPCG was considered as thriving. To maintain the growth in the traditional business model, the firm continuously had to increase its infrastructure capacity to sustain its competencies. As a result, in the late 1990s the increased fixed cost caused by the expansion of infrastructure became a major issue for IBPCG’s management. There was doubt as to whether the FAs’ productivity could be improved with this infrastructure expansion. Facing increasing pressure on the margin, IBPCG intended to solve the problem by increasing the economies of scale.

4 Steve Gresham: Success in wealth management means conducting lots of in-person, face-to-face meetings.
The situation worsened as new market environment augmented the challenges in maintaining IBPCG’s business growth. Its ranking in the industry was beaten down by a fast-growing discounter with an increase of 39% in total assets size in 1998 compared to the 18% of IBPCG. To face the competition, IBPCG had to consider expanding its competitive set beyond traditional full-service firms.

In early 1998, IBPCG’s management established eight initiatives for further exploration. To focus on the top two issues of Technology and Pricing, IBPCG formed appropriate online and pricing taskforces. As the work progressed, IBPCG became ready to transform its vision and business strategy.

The online taskforce took on a massive effort of investigation and collected 2000 pages of data. Based on their data analysis, there had clearly been a rapid, significant change in investor attitudes toward electronic trading. Existing clients were opening online accounts with the competitors. IBPCG was failing to attract new customers at a fast enough rate. In response to the taskforce efforts, senior management traveled around the country to meet with clients in person. The clients convinced them to make the decision to alter the way that business is done.

By the end of 1998, IBPCG launched the online access to the global stock research. Online trading was finally offered in early 1999. As the first full-service firm to offer online trading solution, IBPCG was be able to strengthen its competitive advantage by launching into the new service channel fully integrated with the rest of firm, which greatly differentiated IBPCG from the electronic trading firms. For example, its online research reports provided the analysis on over 1,500 companies covered by IBPCG’s analysts across the globe.

When a pricing taskforce thoroughly evaluated all aspects of the product/price equation in a company it revealed the that the value proposition as the three Ps: Planning, Performance, and Personal Service was viewed as the most important component of the service. Price was considered an issue only in the absence of value. The challenge was to make the case that in the emerging new economy, price is an integral component of the offer, which redefined: Relationship (based on trust), Performance (against client’s goals), Service (beyond expectation), and Price (appropriate to client benefit). Accordingly, firms were aggressively competing on each of these components, including price.
The pricing structure needs to be aligned with how value is delivered to clients. The execution component in the value chain had become a commodity and putting a premium price on the execution of that commodity was not serving the strategy. For example, sometimes the best advice a Financial Advisor can give is not to trade. But when there was no trade the firm didn’t get paid anything.

The taskforce reinforced the need to transform the business from “brokerage” to “asset gathering”. As the work progressed in both the online and pricing areas, IBPCG began the transition to the new business strategy.

2.2.2 IBPCG’s new strategy and the challenges

The new strategy of IBPCG introduced fundamental changes to its traditional service delivery model by switching from the one-to-all model to a multiple channels model. They wanted to offer the “one-stop shop” of wide ranged financial services where clients could select the range of products and services they want.

The multiple service delivery channels are highlighted in Figure 3. By providing a variety of channels, IBPCG tries to satisfy the different needs from different client segments.

Compared to the traditional model, the new strategy contained two major changes. One was the “Total Solution” account. The fee for this service is based on a percent of assets depending on the asset mix, with a declining percentage as assets grew; the account was designed to be the best price/value equation in the industry. The other important change was launching the new service delivery channels of “online direct” and “investor call center” (ICC). These channels served those customers whose needs could not be satisfied by the old model who were attracted by the low cost offered. IBPCG was confident that they could compete with those low-cost entrants by providing higher quality services for a competitive fee-charge. Taking the “online direct” as an example, one can see that it offers customers online purchasing of equities, no-load and load mutual funds, telephone orders for fixed-income, and other products at a very low basic charge of $29.95 a trade. This rate was competitive with the one offered by other low-
cost entrants. In addition to those services, IBPCG’s research and suite of portfolio management, cash management, and e-commerce services were also slated for online delivery. Thus, the new service delivery channel did not simply copy the business model of those new entrants; instead IBPCG designed its own delivery channel by using the advanced technology to deliver its unique value.

![Diagram of service delivery channels and Project Alpha](image)

**Figure 3 Service delivery channel and Program Alpha**

IBPCG’s new strategy also focused on the segmentation of clients. If all the clients were able to select freely the service channels, this might prove to be too expensive for IBPCG. Instead, proactively segmenting the clients into the different service delivery models could maximize the productivity of the whole firm. For example, with the multiple service channels, IBPCG would be able to transfer the small accounts from FAs to other new service channels, such as the online setting or the investor call center. Therefore FAs could have more time to focus on the high-net-worth clients.
The new strategy was perceived as high risk both internally and externally. Besides the challenges of IT capacity, the risk to the revenue by effectively setting a fee ceiling\(^5\), and the issue of adverse selection.\(^6\) There were also challenges of the service delivery channel conducted by FAs, which is the focus of this paper.

By reviewing the literature, it seems that there are three main issues on the executive’s agenda:

First, motivate the Financial Consultant community. There was a critical need to get IBPCG’s biggest asset, the Financial Consultants, converted from merely accepting the suite of new strategy offerings to actively promoting the products – meet with clients to identify the product that best matched client needs, preparing a financial plan with the clients, and ultimately bringing a larger and larger share of the client’s assets under the IBPCG product umbrella.

Second, the client need for fast transaction and seamless service. Once clients met with their Financial Consultant and decided on the optimal relationship for the client, IBPCG needed a process for clients to be made aware of other products and services that might be appropriate.

Third, the future role of the Financial Advisor. At present, Financial Consultants, often with the help of an administrative (Client Associates –CA), performed all facets of servicing the client relationship. This included a range of services from brokerage transactions, arranging financial planning, or administrative needs such as having checks certified for clients. Many at IBPCG believed that there needed to be an evolution of the role, especially with its ambitious goal to be a full service provider in all respects. Some suggested that the enhanced Financial Consultant might continue to manage the relationship, but expand access to specialists (such as estate planning) that was already available, in addition to delegating more and more of the administrative tasks. Indeed the entire structure of the selling operation would have to be carefully transformed to match

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\(^5\) According to the new fee-charge model, the fee charge will be charged within 1% of the assets.

\(^6\) It was possible under the new scenario for a customer to keep the minimum balance in the brokerage account and use that advice to trade through the “online direct” account.
the reality of the business situation.

2.3 IBPCG’s position in terms of strategy vs. market pressure

We have discussed how IBPCG decided to adopt the new strategy in response to market pressures. Now we need to take a look at how the new strategy has positioned IBPCG in the market. Figure 4 illustrates a framework that can help us visualize the four possible positions we foresee for IBPCG. This framework has been developed by a MIT professor and adapted for this study.

![Strategy Matrix Diagram]

Looking at the market in late 1990s, we can see that when the new entrants came into the market, they took the “Dodger” position by promoting their unique service delivery model with very aggressive marketing strategy. At that time, IBPCG was pushed to the defender position and had four choices:
➢ Remain a “Defender” by sustaining its core competency
➢ Move to “Dogder” position by adopting aggressive marketing strategy
➢ Move to “Extender” by increasing the service delivery channels
➢ Directly move to “Contender”

We believe that IBPCG’s new strategy led the firm to the “Extender” position by offering the total solution to clients. In order to meet the high market expectations, the new business model had to offer higher quality of service. Multiple channels only provided the stage or condition to perform the high quality service but did not provide a main content of service. To move to the “Contender” position at a pace that parallels the market changes, IBPCG should improve its business practice to better implement its new strategy. Program Alpha is one of the most important business practices created by IBPCG as an attempt to move to the “Contender” position.
Chapter 3  Alpha – Program Description

Chapter 2 discussed the background of Program Alpha by reviewing the changes of market and IBPCG’s corresponding new strategy. We saw that at the end of 1990s IBPCG had no choice but to make a fundamental change to its business model, but this meant high risks. In this paper, we want to study the impact of the changes introduced by IBPCG to the FA channel. We will discuss how Program Alpha was created as a way to implement the firm’s strategy smoothly in the daily operation at the base level and to fulfill the firm’s goals at the strategic level.

3.1  The challenges to the FA channel

Since the new FA channel evolved from a traditional one, it still carried certain characteristics of the old model. Facing the challenge of the revenue ceiling, FAs tried to enlarge the assets by recruiting more clients, regardless the account sizes. This caused a bandwidth problem and affected the FAs’ productivity.

To implement the new strategy, IBPCG wanted FAs to be involved actively in client segmentation, which was one of the important components of the new strategy. IBPCG wanted FAs to move the small accounts to other more cost effective channels. At the same time, IBPCG required FAs to deliver better quality service to the high-net-worth individuals in order to improve their productivity. The issue was how to turn IBPCG’s strategy into practice at the basic level. As mentioned above, IBPCG was facing the risk of losing FAs and their clients if they could not help the FAs to fit smoothly into the new model. Alpha, as a program to complement the new strategy, was supposed to train FAs in a model that was aimed at improving their productivity and efficiency, which would in turn greatly benefit IBPCG, FAs and clients.

3.2  The early form of Alpha

In the mid 1990s, the Mid-West (MW) complex was the least performing district according to IBPCG’s performance measuring system. MW management searched for solutions to improve the district’s performance. They tried to improve the business practice, starting from the analysis of clients’ perception of satisfaction. Their analysis
had the same results as the industry indications as sited in 2.1.4. Most clients valued their
satisfaction based on three key elements: frequency of contacts, attention to details and
rapid response to problems.

The MW district began to change the way they dealt with clients. They directed FAs
to focus more on personal relationships with the high-net-worth clients. The immediate
success could be measured by the annual firm-wide performance appraisal. Soon, they
realized limitations existed in this new way of servicing clients. The FAs could not
provide the same high quality service to all of their many accounts at the same time. In
other words, the quality of service was constrained by the number of accounts managed.
Although 80-90 % of revenue was created by only 10-20 % of clients, FAs could only
contribute about 20% of their time to those high-net-worth clients because they spent
much time with their small account clients who did not bring much revenue to the firm.

In 1999 in an effort to improve the district ranking within the firm and to respond to
the firm’s new strategy of client segmentation, one of the branch offices of the MW
district adopted a new approach. We call this approach the “first form” of Program
Alpha. Realizing that the only way to improve the quality of service is to reduce the FAs’
book size and have them spend more time with the clients that brought value, IBPCG
asked FAs to transfer out small accounts to other channels within the firm. In addition,
the FA contact with the valuable clients needed improve. Therefore, they searched for
ways to organize themselves better. To help FAs standardize the handling of client
relationships and create a systematic way of contacting clients, IBPCG’s MW
management re-designed their working procedures, developed computer-based tools and
created color-coded paper files. Noticing the significant improvement of clients’
satisfaction, the MW district management rolled out the program within the district and
named it Alpha. A software tool was also developed to support the implementation of
project.

3.3 Alpha – basic concept and the model

Program Alpha was designed to increase service quality and productivity of IBPCG’s
FAs by implementing structured time management and a disciplined client and prospect
contact process. The system had several components: 1) a defined "12-4-2" time and
service commitment to each client including 12 monthly phone contacts, 4 quarterly portfolio reviews, and 2 face-to-face meetings, 2) a reduction of the number of clients served to match the committed time, 3) structured daily activities that meet the service commitment, 4) the use of checklists and other means to structure the interaction time with each client.

Program Alpha was designed to be implemented into three phases: segmentation, organization, and acquisition. These phases are explained in more detail in the following sections.

3.3.1 Segmentation of clients

GE’s management model of “four-classes” was applied to client segmentation. The A-class clients were those who put significant assets (over one million) into IBPCG’s accounts and would like to follow the advice of their FAs. Their accounts generated the major revenue for IBPCG, therefore deserved better service. Prior to Alpha, the common problem was that FAs wanted to focus on the A-class and call those clients at least once a month but they were too busy with B, C and D clients. In reality, what happened quite often was that FAs entered into unprepared phone calls initiated by the clients. The B-class clients were those whose assets with IBPCG were less than one million but they might have the potential to increase or they were very good resources for referrals. C-class clients were considered to have no future potential for both the FA and IBPCG. They were recruited because the FA needed them at that time to contribute to the total assets, but the fee earned from them hardly matched to the related cost. The D-class clients were those who did not follow the FA’s advice, occupied the FA’s time and did not contribute much to the firm’s revenue.

Program Alpha’s goal was to focus on the A-class, minimize B, and transfer out C and D. With the development of new service delivery channels, such as the online venue and the investor call center, IBPCG migrated the small account clients into those more cost efficient channels. The firm believed the sound service and the competitive price of those new channels could better satisfy the needs of some clients segments. From

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7 Part of these B-class clients had very strong relationship with A-class clients, such as close relatives; therefore FAs had to keep serving them.
IBPCG’s viewpoint, the ideal business model for the whole firm was to segment the clients into different service delivery models so the overall efficiency could be improved.

The book size managed by the FAs was expected to significantly reduce after the migration of small accounts, thereby solving the bandwidth problem. Prior to Alpha the average book size was about 500. According to the clients' survey, they expected to meet with FA approximately 12 times per year. Considering 40 working hours a week, the theoretical maximum number of book size should be only 200 per FA. The high-net-worth clients might even require more time. It follows that if the FA had more high-net-worth clients, the FA book size should be even smaller.

Program Alpha was going to train FAs to set a maximum number of clients that he/she is willing to serve. Specific tools were developed to help the FAs to standardize the way that they separated clients into the four classes. The class C and D should automatically be transferred to the “direct channels”\(^8\). When the target number of accounts was reached, the book size should be kept at or below that level, meaning that one client had to be transferred out if a new one was recruited.

3.3.2 Organization

Program Alpha also aimed to help the FAs fit into the new service delivery model and better organize themselves in order to deliver a higher quality service. The organization process took place through implementing structured time management and a disciplined client contact process.

Based on the clients’ survey results that said that clients preferred to be contacted 12 times a year, program Alpha established a client contact system that was known as “12-4-2 system” in which the FA was required to make twelve contacts to a client per year. Within that 12 contact, there were four quarterly reviews; of these four quarterly reviews, two were face-to-face meetings.

The “12-4-2 system” was not followed strictly but it was seen as a guideline for client contacts, implemented according to an FA’s working style and clients’ profile. The “12-4-2 system” also suggested that FAs should set up a contact schedule for each client. The

\(^8\) The online direct and investor call center.
motivation behind this was the idea that clients would feel better taken care of when they meet with their FAs on a regular basis and were receiving proactive advice, rather than when they initiate the calls to the FAs themselves. This, in fact, saved a great deal of the FAs’ time, allowing them to concentrate their time on providing higher quality service to their clients.

Organization also required FAs to outsource of certain activities under their responsibility so that they could focus on client relationships instead of spending so much time on administrative work. To illustrate this point, we present a chart in Figure 5 with FA’s average time utilization per week prior to Program Alpha.

![Pie chart showing time utilization]

**Figure 5**  FA’s average time utilization prior Alpha (Based on interview with 6 FAs)

Evidently, the FA mental model was based on the assumption that production was increased through a large book size, which in turn was fueled by continuous prospecting activities (an estimated 45% of the time). An interview with six FAs in Boston and Kansas indicated that typical FAs spend an estimated 30% of their time reacting to inquiries from their clients while spending a mere 5% actually calling their clients for a portfolio review. Finally, they spend 20% of the remaining time
marketing the company's new products. The selection of the contacted client was discretionary to the FA.

To save FAs time from the administrative workload, Program Alpha promoted the creation and utilization of a colored file system, known as the folder system. With this system, FAs relied heavily on their CAs who handled most of the work. Implementing the folder system was a crucial step to the success of the Program Alpha. As shown in Figure 6, the folder system help FAs to well organize and standardize client contact. The composition of the client folder prior to Alpha showed that the old model only contained the “client statement”, “client snapshot” and “performance summary”, and the information was updated in a irregular basis. Under the Program Alpha, the folder system contained the entire process necessary for the clients’ contact, in which the information would be updated regularly.

Figure 6 Folder system
3.3.3 Acquisition

The third stage of Program Alpha was designed to focus on prospecting activities. After the organization phase has been concluded, FAs had more time on their agenda to dedicate a great deal of their time to acquiring new clients. The suggestion for this acquisition was to do it through smart marketing (i.e. cloning of the best clients). Since the long-term success depended on IBPCG’s ability to attract and retain the high-net-worth clients, it was important to dedicate time to this phase.

3.4 Perceptions to Program Alpha

Based on the understanding of Program Alpha that was described earlier in this chapter, now we would like to analyze IBPCG’s perceptions of this program. In order to clarify the results of survey we conducted (presented in Chapter 4), it is important to look at the perceptions of Program Alpha. If we expect more from Program Alpha than it can deliver, we might not see its positive impact from the survey results and we might also believe erroneously that Alpha is not delivering what was intended. Before discussing this, we must analyze what outcomes are the “direct results” that we should expect from Program Alpha. Those “direct results” then become important measures of the implementation of the Program. Others are “indirect results” that were derived simply because the conditions were right under Program Alpha to achieve them. To completely realize those “indirect results”, other efforts or new programs have to be implemented.

3.4.1 “Direct results”

Expected results from “Segmentation”

- Reducing book size: A target book size should be established; this target would be reached within an expected time period.
- Small accounts should be transferred out.
- Average assets were expected to increase after the small accounts were transferred out.
Expected results from “Organization”

- Implementation of 12-4-2: No IT system can automatically record the meeting schedule conducted by FAs. It can only be measured by the survey.

- Usage of “Folder System”: There is no quantitative measure for the usage of “Folder system”, if needed, it can also be measured by survey.

- FAs could allocate their time as recommended. No system could record FA’s time allocation either.

- Clients feel more satisfied with the well-prepared regular contacts. It could only be tested from the client survey.

- Clients should recognize more value of the firm after they are served with the standardized service model.
Expected results from “Acquisition”

➢ New high-net-worth individuals are acquired.
➢ Total assets increased

Overall from Program Alpha

➢ Reduction in market errors
➢ FAs would be satisfied with concept of Program Alpha and would be willing to adopt the program
➢ Increased client satisfaction to FA
➢ Increased client satisfaction to CA

3.4.2 “Indirect results”

➢ Improve the investment performance: The proactive, personalized and timely first class advices can have positive impact to the clients’ investment performance.
➢ Clients’ retention: The clients’ retention could be achieved with high satisfaction, which could greatly improve IBPCG’s productivity.
➢ Clients would like to put in more assets
➢ Clients would refer other people to the firm
➢ Overall client satisfaction increases
➢ Improve the profitability of the firm

The quantitative data collected at a regular basis is more focused on those indirect expected results. If we only evaluate the Program Alpha based on those quantitative data, we may not see the true value of the program. For this thesis project, we conducted a phone survey to collect some “qualitative data” to provide more analysis to the business impact of the Program Alpha. The phone surveys were conducted only for this project. If the same data could not be collected on a regular basis, without further comparison it would be difficult to evaluate Program Alpha thoroughly. In the long term, IBPCG should consider revising its regular measurement metrics to better reflect the perception to Program Alpha. Based on that, the incentive system could then adjust to motivate the FAs and CAs to move to the directions expected by the firm.
Chapter 4  Qualitative and Quantitative Analysis

In this chapter we present the results and analysis of the surveys we carried out to evaluate Program Alpha. We start by describing the statistical research methodology used to perform both the quantitative and qualitative analyses. We finalize this chapter by summarizing the quantitative and qualitative findings of surveys conducted with FAs, CAs and clients.

4.1  Statistical Research Methodology

Two main sets of analyses were performed based on data obtained for Program Alpha implementation over the period August/2000 to December/2001: quantitative analysis of business metrics and qualitative analysis of attitudinal effects.

4.1.1  Quantitative Methodology

The first analysis performed in this study was led by the Management Science team at IBPCG and consisted primarily of the quantitative analysis of financial data and other hard metrics from Program Alpha. This data was obtained directly from the internal systems and did not require development of any specific data collection vehicle, with the exception of a short e-mail questionnaire that allowed for a fine classification of financial advisors in terms of their adoption level of Program Alpha.

The principal objectives of the quantitative analysis were measuring business impact of Program Alpha on the behavior of households with specific regard to assets with IBPCG and investment activity profile, as well as assessing the business impact of the program over the behavior of financial advisors with specific regard to characteristics of their book.

In both cases, a comparative analysis was performed in order to observe the differences in behavior between households and financial advisors who were part of Program Alpha and those who were not part of the program.
Business impact measures at the client level are:

1. Total assets
2. PCs
3. Margin usage
4. Client satisfaction
5. Annuited assets
6. Asset allocation
7. Investment performance
8. Velocity (PCs / Assets)

FA productivity measures to be examined at the post-split and pool level are:

1. Total assets
2. PCs
4. Margin usage
5. Client satisfaction
6. Retention
7. New households / accounts
8. Annuited assets
9. Asset allocation
10. Investment performance
11. Velocity (PCs / Assets)
12. Households in various asset tiers
13. Book size

4.1.2 Qualitative Methodology

The second analysis performed in this study was conducted jointly by the Market Research team at IBPCG and the MIT team. It consisted mainly of measuring the attitudinal impact of Program Alpha on FAs, CAs and clients themselves. Contrary to the analysis performed by the Management Science team, this task entailed a broader set of soft factors and fewer hard metrics, and no preliminary data was available from an internal system. Certain data collection vehicles were used, including individual interviews, focus groups, and telephone questionnaires.

4.1.2.1 Individual Interviews

Individual interviews were conducted with a variety of individuals, including corporate management (headquarters), complex managers, branch managers, FAs, CAs
and IT managers. Despite the statistical insignificance of the opinions and visions collected, a number of valuable insights were obtained and later matched with results from questionnaires. There was no specific format or structure created for these interviews and a number of them were conducted informally. Records of these interviews have not been included as part of this paper.

4.1.2.2 Focus Groups

Focus groups were run with the primary objective of assisting the crafting and fine-tuning of the telephone questionnaires. The goal was to create an environment for FAs and CAs to interact with each other and openly discuss some of their common issues and difficulties in a reserved forum. Those discussions would ideally have begun to point out evidence of key gaps in the Program Alpha implementation.

The structure of the focus groups was very carefully planned and scripted by the Market Research group. The discussions themselves were mediated by a professional from the field who used questions from the script and steered the conversations through various relevant topics, some of which were not emphasized in the original script but gained importance during the discussions. Each focus group discussion took an average of 1.5 hours.

In total, six focus groups were conducted, including three with FAs and three with CAs. The meetings took place in 3 different cities and included a mix of FAs working ‘solo’ or in teams. A detailed record of these discussions has not been included as part of this paper for confidentiality reasons, but it is available to authorized parties upon request.

4.1.2.3 Questionnaires

Telephone questionnaires were conducted with 69 FAs implementing Program Alpha, as well as 400 of their clients. The primary objective of this research tool was to collect statistically relevant data on their behavior after the initial roll-out of Program Alpha.

Initially, the research team planned to conduct interviews through telephone questionnaires with the following:

➢ Financial advisors that were in the process of implementing Program Alpha;
Financial advisors who had begun to implement and then decided to drop out of Program Alpha;

Client associates who worked with financial advisors that were in the process of implementing Program Alpha;

Clients of financial advisors that were in the process of implementing Program Alpha.

Due to time and resource constraints, the research team decided that only questionnaires (a) and (d) would be finalized and actually conducted. This decision greatly diminished the potential impact of this research tool, especially because some of the most relevant results were expected to come from (b), i.e. telephone interviews with financial advisors who had decided not to continue in Program Alpha. Their rationale for dropping out of the program would likely generate substantial insight into some of the gaps in the entire initiative.

Questionnaires were given through telephone interviews conducted by an independent firm. Each FA interview had on average 40 questions and lasted about 45 minutes. Each client interview had on average 50 questions and lasted about one hour.

Copies of the questionnaires developed for FAs and clients have not been included as part of this paper for confidentiality reasons, but they are also available to authorized parties upon request.

4.2 Quantitative Analysis

All information on this section was extracted from reports put together by the Management Science group at IBPCG. Further details can be obtained from that group by authorized individuals.

4.2.1 Summary of Test-Control Group Analysis

The test group of Program Alpha FAs consists of 75 FAs who attended the first Program Alpha training program in the Midwest district held in August 2000. The control group of non-Program Alpha FAs consists of 828 FAs who were selected to match the test group based on geographic region, PC quintile, book size, and total assets. Both groups were tracked over a 12-month period before the Program Alpha training
(Aug 99 – Jul 00) and a 14-month period afterwards (Nov 00 – Dec 01).

Figure 8 Test group and control group of FA

The test group of Program Alpha clients consisted of 16,374 clients associated with the 75 FAs who attended the first Program Alpha training program in the Midwest district held in August 2000. The control group of non-Program Alpha clients consisted of 16,364 clients associated with the 828 control group FAs. These clients were randomly selected to match the Program Alpha clients based on geographic region, assets, and PCs.

Figure 9 Test group and control group for clients

Both groups were tracked over a 12-month period before the Program Alpha training
(Aug 99 – Jul 00) and a 14-month period afterwards (Nov 00 – Dec 01). A similar approach was used to evaluate the 1,415 clients (associated with the 75 Program Alpha FAs) who were transferred to a different FA and the 6,800 clients who migrated to ICC.

4.2.2 Quantitative Findings

4.2.2.1 Summary of Financial Advisor Quantitative Findings

Table 1 displays productivity measures where the Program Alpha FAs had a statistically significant change vs. the control group.

<table>
<thead>
<tr>
<th>FA Productivity Measure</th>
<th>Direction of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCs</td>
<td>Better (Higher)</td>
</tr>
<tr>
<td>Velocity</td>
<td>Better (Higher)</td>
</tr>
<tr>
<td>Market Error Dollars</td>
<td>Better (Lower)</td>
</tr>
<tr>
<td>Book size</td>
<td>Better (Lower)</td>
</tr>
<tr>
<td>Annuited Assets</td>
<td>Worse (Lower)</td>
</tr>
<tr>
<td>New Households Acquired</td>
<td>Worse (Lower)</td>
</tr>
<tr>
<td>Client Satisfaction with CA Service</td>
<td>Better (Higher)</td>
</tr>
<tr>
<td>% of Clients who feel they need more FA Contact</td>
<td>Better (Lower)</td>
</tr>
<tr>
<td>% of Clients who feel FA is working in their best interest</td>
<td>Better (Higher)</td>
</tr>
</tbody>
</table>

Table 1  Productivity measure

No statistically significant change was found in total assets, client retention or asset allocation.

The subset of FAs who self-assigned themselves as strong Program Alpha implementers did slightly better than the total Program Alpha group in velocity and market error dollars. Table 2 summarizes selected results:
<table>
<thead>
<tr>
<th>FA Productivity Measure</th>
<th>Group</th>
<th>Pre-Program Alpha Mean / FA</th>
<th>Post-Program Alpha Mean / FA</th>
<th>Change from Pre to Post Program Alpha Change</th>
<th>% Change</th>
<th>Lift</th>
<th>% Lift</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCs ($K) (Annual)</td>
<td>Test Control</td>
<td>$526K $552K</td>
<td>$532K $516K</td>
<td>$5K $-35K</td>
<td>1.0%</td>
<td>$40K</td>
<td>7%</td>
</tr>
<tr>
<td>Velocity (bps)</td>
<td>Test Control</td>
<td>74.0 75.3</td>
<td>81.3 76.5</td>
<td>7.4 1.3</td>
<td>10.0%</td>
<td>6.1</td>
<td>8%</td>
</tr>
<tr>
<td>Book size</td>
<td>Test Control</td>
<td>289 289</td>
<td>208 239</td>
<td>-81 -50</td>
<td>-28%</td>
<td>-31</td>
<td>-11%</td>
</tr>
<tr>
<td>Annuitized Assets ($M)</td>
<td>Test Control</td>
<td>$33M $12M</td>
<td>$28M $12M</td>
<td>-$5M -$1M</td>
<td>-15%</td>
<td>-$4M</td>
<td>-8%</td>
</tr>
<tr>
<td>CA Service (Performance Report 1-7 scale)</td>
<td>Test Control</td>
<td>6.16 6.26</td>
<td>6.29 6.28</td>
<td>0.13 0.02</td>
<td>2.1%</td>
<td>0.11</td>
<td>2%</td>
</tr>
<tr>
<td>Rate of Return (Annual %)</td>
<td>Test Control</td>
<td>6.4% 5.4%</td>
<td>-10.0% -9.0%</td>
<td>-16.4 pts N/A</td>
<td>N/A</td>
<td>-2 pts</td>
<td>N/A</td>
</tr>
<tr>
<td>Market Errors ($K) (annual)</td>
<td>Test Control</td>
<td>$3.6K $3.0K</td>
<td>$0.8K $2.3K</td>
<td>-$2.8K -$0.7K</td>
<td>-76.7%</td>
<td>-$2.0K</td>
<td>-54%</td>
</tr>
</tbody>
</table>

*Indicates this lift was significant only at the 90% confidence level

Table 2  Selected results of FA's self-assignment

4.2.2.2 Summary of Client Quantitative Findings

The following table displays productivity measures where the Program Alpha clients had a statistically significant change vs. the control group.

<table>
<thead>
<tr>
<th>FA Productivity Measure</th>
<th>Direction of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Better (Higher)</td>
</tr>
<tr>
<td>PCs</td>
<td>Better (Higher)</td>
</tr>
<tr>
<td>Velocity</td>
<td>Better (Higher)</td>
</tr>
<tr>
<td>% of Clients who feel FA needs to provide more research</td>
<td>Worse (Higher)</td>
</tr>
</tbody>
</table>

Table 3  Productivity measures from clients under Program Alpha

No statistically significant change was found in client retention, annuitized assets, margin usage, and market errors. Clients who were transferred to a non-Program Alpha FA or to Investor Call Center (ICC) generally did not show any significant negative behavior.

The following table summarizes selected results for Program Alpha clients:
<table>
<thead>
<tr>
<th>Client Performance Measure</th>
<th>Group</th>
<th>Pre-Program Alpha Mean / HH</th>
<th>Post-Program Alpha Mean / HH</th>
<th>Change from Pre to Post Program Alpha</th>
<th>% Change</th>
<th>Lift</th>
<th>% Lift</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets (K)</td>
<td>Test</td>
<td>$370K</td>
<td>$333K</td>
<td>-$37K</td>
<td>-10%</td>
<td>$11K</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>$376K</td>
<td>$328K</td>
<td>-$48K</td>
<td>-13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCs ($) (Annual)</td>
<td>Test</td>
<td>$2079</td>
<td>$1947</td>
<td>-$132</td>
<td>-6%</td>
<td>$299</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>$2289</td>
<td>$1858</td>
<td>-$431</td>
<td>-19%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Velocity (bps)</td>
<td>Test</td>
<td>77</td>
<td>78</td>
<td>1</td>
<td>1%</td>
<td>9</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>84</td>
<td>76</td>
<td>-8</td>
<td>-10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of Return (Annual %)</td>
<td>Test</td>
<td>9.4%</td>
<td>-10.7%</td>
<td>-20.1 pts</td>
<td>N/A</td>
<td>N/A</td>
<td>-0.9 pts*</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>9.2%</td>
<td>-10.0%</td>
<td>-19.2 pts</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* Indicates this lift was significant only at the 90% confidence level

Table 4 Client performance measures for Program Alpha

As discussed in section 3.5, the quantitative analysis is more focused on those "indirect result". Just looking at the results of this analysis is hard to conclude whether or not Program Alpha was effective. For example, from the above table we can see investment performance actually became worse. And it was expected to be improved. In reality, as we indicated in Chapter 3, Program Alpha just provided a better condition to improve the investment performance but Alpha alone could not completely achieve the goals. Some other factors should be also improved such as knowledge and skills of FA, quality of research products and execution efficiency. Most importantly, the market condition had big impact to the investment performance. Results are from only 12 months. This is really short compared to the number of market changes that occurred in this same period.

We believe that the qualitative analysis is very important to this research project because it was based on the data collected from a survey specially designed for this research project. The data used for the quantitative analysis were mainly from the existing data, which had been used to measure the general operation performance for years regardless of the implementation of Alpha. Therefore, we tend to believe that the qualitative data were more suitable for evaluating Program Alpha.
4.3 Qualitative Analysis

The analysis of qualitative data based on interviews, focus groups and telephone questionnaire was performed in two phases:

Phase 1: Analysis of data gathered from interviews, focus groups and preliminary interpretation of questionnaire results. The results from this phase are included in this paper.

Phase 2: Detailed analysis of questionnaire results. This analysis is not included in this paper. It is part of a thesis project separately recorded by Luca Donà and Hugo Barra. Materials are available from the authors to authorized parties upon request.

4.3.1 Qualitative Findings

Focus Groups and Interview Findings

The following insights and observations were drawn from focus group discussions and personal interviews conducted with branch managers, IT managers, and other individuals at the complex and corporate levels.

➢ Financial advisors and client associates endorse the Program Alpha theory. Generally speaking, the disciplined approach to reducing the client base and improved communication scheme with remaining high-net-worth clients is very well regarded as a positive business growth driver.

➢ Consistent problems exist related to Program Alpha roll-out from a systems standpoint, which have hampered full program implementation. These include inflexibility of the schedule calendar, lack of data portability and networking capability, absence of note entry, difficulty in customizing report content, and slow printing of client information for folders. As a result, FAs and CAs are not implementing the full potential of Program Alpha and frequently make use of other software packages or customize their approach to fit the limitations of technology already mastered.
➤ There are notable differences between offices in terms of level of implementation of Program Alpha and user satisfaction with the program. Implementation seems more complete in the Kansas City office where concentrated motivational and support efforts were in place after the initial training session. In contrast, Program Alpha users in Boston and Indianapolis note an absence of concentrated follow-up at the office level, including limitations on client associate staffing in Indianapolis.

➤ All FAs in this sample have undertaken client classification and client migration via Program Alpha and acknowledge the value of the program in this regard. While they subscribe to the 12/4/2 model as an ideal target and for its disciplinary value, FAs note that the model must be tailored to client needs.

➤ Many FAs, especially in the Kansas City complex, strongly rely on the CAs as ‘schedule enforcers’.

➤ Program Alpha users have not yet progressed to the ‘acquisition’ phase of the program in an organized manner, although they do support the ‘smart marketing’ approach to generating referrals. To date, FAs have generally experienced success in asset consolidation, based on more regular client contact. Other positive Program Alpha effects, particularly in Kansas City, include higher internal performance scores and greater job satisfaction including reassurance that client issues are receiving proper attention.

➤ Non-users of Program Alpha are perceived (by users) as:
  • Older, more technology-resistant or less interested in business growth;
  • Reluctant to undertake client migration;
  • Unwilling to invest the time needed to implement the program.

➤ There is also some indication that teams may be better in a better position to implement Program Alpha, including assignment of the burden of organizational responsibility to one CA. However, users note that all FAs on a team must be involved with Program Alpha to the same extent, in order to ensure successful implementation.
4.3.1.1 **Financial Advisor Questionnaire Findings**

Financial advisor perception of Program Alpha value: FAs generally support Program Alpha strongly and believe it is a highly beneficial program to IBPCG’s business. FAs also profoundly buy into quite the concepts of segmentation and 12/4/2. The following tables show a summary of relevant statistical results on this topic:

<table>
<thead>
<tr>
<th>High satisfaction with program;</th>
<th>Percentage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High perceived program value overall;</td>
<td>Overall with program</td>
<td>48%</td>
</tr>
<tr>
<td>High willingness to continue participating in program.</td>
<td>Valuable to clients</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>Valuable to FAs</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>Valuable to CAs</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>Valuable to IBPCG</td>
<td>57%</td>
</tr>
<tr>
<td></td>
<td>Will you continue to participate</td>
<td>88%</td>
</tr>
</tbody>
</table>

*Table 5 Financial advisor perception of Program Alpha value – Part 1*

<table>
<thead>
<tr>
<th>High perceived value in segmentation and 12/4/2 contact schedule.</th>
<th>Specific features</th>
<th>Extremely Valuable</th>
<th>Valuable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reducing book size</td>
<td>46%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>Segmenting Client base</td>
<td>45%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>12-4-2 contact schedule</td>
<td>52%</td>
<td>33%</td>
</tr>
</tbody>
</table>

*Table 6 Financial advisor perception of Program Alpha value – Part 2*
High perceived program value for client retention;
High perceived program value for attracting new assets from existing clients.

| Increasing your overall efficiency in running your | 42% | 42% |
| Increasing the number of IBPCG's products and services used by HNW clients | 17% | 33% |
| Attracting HNW clients | 30% | 52% |
| Attracting assets of existing clients | 35% | 51% |
| Increasing the number of client Referrals | 32% | 42% |
| Retaining clients. | 60% | 40% |
| Providing high-quality service to clients | 51% | 35% |

Table 7 Financial advisor perception of Program Alpha value – Part 3

<table>
<thead>
<tr>
<th>Perceived adequacy of 12/4/2 schedule for ‘A-Class’ clients.</th>
<th>Too Many</th>
<th>Not Enough</th>
<th>Just Right</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td># of calls (12)</td>
<td>16%</td>
<td>3%</td>
<td>76%</td>
<td>4%</td>
</tr>
<tr>
<td># of portfolio reviews (4)</td>
<td>22%</td>
<td>3%</td>
<td>74%</td>
<td>1%</td>
</tr>
<tr>
<td># in-person meetings (2)</td>
<td>12%</td>
<td>15%</td>
<td>73%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Table 8 Financial advisor perception of Program Alpha value – Part 4

Financial advisor perception of Program Alpha tools: Desired improvements for specific operational tools that support the system. The tools themselves suggest that improvements are possible. Apart from the Initial Segmentation Report which is viewed as at least valuable by 78%+ of respondents, the scoreboard received mixed scores, while the folder system and client contact software was considered not very adequate by a significant number of respondents. Many have either modified the folder system and/or using non- IBPCG software to assist them with following the program. The following tables show a summary of relevant statistical results on this topic:
High perceived value in folder system;
High perceived value in Initial Segmentation Report;
Low perceived value in Scoreboard.

<table>
<thead>
<tr>
<th></th>
<th>Percentage of Financial Advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating client folders</td>
<td>33% 29%</td>
</tr>
<tr>
<td>Using Scoreboard</td>
<td>3% 26%</td>
</tr>
<tr>
<td>Initial Report to segment client base</td>
<td>39% 39%</td>
</tr>
</tbody>
</table>

Table 9 Financial advisor perception of Program Alpha tools – Part 1

Very low standardization on software used by financial advisors for Program Alpha.

<table>
<thead>
<tr>
<th>Software Used By Financial Advisors</th>
<th>Percentage of Financial Advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBPCG software designed for Program Alpha</td>
<td>50%</td>
</tr>
<tr>
<td>Other IBPCG software</td>
<td>4%</td>
</tr>
<tr>
<td>Software you have developed</td>
<td>15%</td>
</tr>
<tr>
<td>Non-IBPCG software</td>
<td>39%</td>
</tr>
</tbody>
</table>

Table 10 Financial advisor perception of Program Alpha tools – Part 2

<table>
<thead>
<tr>
<th>Use of Folder System</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you using the folder system?</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Are you using a modified version of the folder</td>
<td>86%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Table 11 Financial advisor perception of Program Alpha tools – Part 3

4.3.1.2 Client Questionnaire Findings

Client perception of service level under Program Alpha: Clients of Program Alpha FAs generally feel that the quality of services provided by IBPCG is high, even in comparison with other firms and are satisfied with the services provided by their FA. They seem, however, to have come to expect this level of quality, which meets but does not greatly exceed their requirements and represents good, but not exceptional, value for their money. Their satisfaction with the service contrasts with the low performance of
their investments compared to expectations. The following table shows a summary of relevant statistical results on this topic:

<table>
<thead>
<tr>
<th>Specific features:</th>
<th>Extremely positive</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Service (High/low)</td>
<td>27%</td>
<td>52%</td>
</tr>
<tr>
<td>Satisfied w services</td>
<td>38%</td>
<td>43%</td>
</tr>
<tr>
<td>Comparison w other firms</td>
<td>16%</td>
<td>44%</td>
</tr>
<tr>
<td>Responsiveness in correcting problems (58 answers)</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>Service vs requirements</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Performance of investment compared to expectations</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Value for money of service and products</td>
<td>19%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Table 12 Client perception of service level under Program Alpha

Perception of frequency of contacts by financial advisor (and team): Most clients have not noticed a significant difference in their contact schedule by the FA. The following table shows a summary of relevant statistical results on this topic:

<table>
<thead>
<tr>
<th>Most clients have not noticed a change in the frequency of contact.</th>
<th>Increased</th>
<th>Decreased</th>
<th>Same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency of contact from FA or FA team</td>
<td>18%</td>
<td>15%</td>
<td>53%</td>
</tr>
<tr>
<td>Frequency of contact from CA</td>
<td>13%</td>
<td>10%</td>
<td>56%</td>
</tr>
<tr>
<td>Frequency of portfolio reviews</td>
<td>9%</td>
<td>14%</td>
<td>72%</td>
</tr>
<tr>
<td>Frequency of in-person meetings</td>
<td>10%</td>
<td>15%</td>
<td>52%</td>
</tr>
<tr>
<td>Resolution of any problems you may have</td>
<td>8%</td>
<td>6%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Table 13 Perception of frequency of contacts by financial advisor (and team)

Client assessment of IBPCG: These measures are less satisfactory (in the aggregate). On the positive side, 42% have brought additional assets to IBPCG. On the negative side, future plans are neutral and respondents do not seem to have noticed an increase in the quality of service. The following table shows a summary of relevant statistical results on this topic:
Clients have overall demonstrated an interest in maintaining or increasing size of assets invested with IBPCG;

There exist minor concerns with the level of quality of service provided by IBPCG, specifically in that many clients have not perceived an increase;

For clients investing new assets, a significant share of the assets transferred to IBPCG came from competitors.

<table>
<thead>
<tr>
<th>During the next 12 months, you will …. the assets you hold at The Firm?</th>
<th>Increase</th>
<th>Maintain</th>
<th>Partially withdraw</th>
<th>Completely withdraw</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compared to 12 months ago, would you say that The Firm's current quality of service is...</td>
<td>Much better</td>
<td>Somewhat better</td>
<td>The same</td>
<td>Poorer</td>
</tr>
<tr>
<td>14%</td>
<td>66%</td>
<td>13%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>During the past 12 months, have you experienced any problems with The Firm?</td>
<td>NO</td>
<td>YES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>85%</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within the past year or so, have you brought additional assets to The Firm?</td>
<td>YES</td>
<td>NO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>42% (169)</td>
<td>56%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Would you say that these assets had comprised a …. proportion of the savings and investments you had held outside of The Firm 169 respondents</td>
<td>Significant Proportion</td>
<td>Moderate Proportion</td>
<td>Small Proportion</td>
<td></td>
</tr>
<tr>
<td>21%</td>
<td>32%</td>
<td>42%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 14 Client assessment of IBPCG

Assessing reasons to increase assets: Clients generally highly praise the empathy and professional qualities of their FAs and describe them as “trustworthy”. However, while the numbers are high, they seem to fall short of 1st of class and suggest that further service improvements are needed to meet that objective. The following table shows a summary of relevant statistical results on this topic:
Financial advisors are viewed as trustworthy;

Referrals and advertising have not been very influential on clients’ decisions on investing new assets.

<table>
<thead>
<tr>
<th>Reason</th>
<th>42% (169)</th>
<th>56%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the past year or so, have you brought additional assets to IBPCG?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality of FA service</th>
<th>40%</th>
<th>38%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of FA investment advice</td>
<td>34%</td>
<td>40%</td>
<td>9%</td>
</tr>
<tr>
<td>Recommendation received from a friend, family member or colleague</td>
<td>17%</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>IBPCG product and service offering</td>
<td>21%</td>
<td>43%</td>
<td>7%</td>
</tr>
<tr>
<td>IBPCG advertising</td>
<td>4%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Performance of your investments at IBPCG</td>
<td>17%</td>
<td>44%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Table 15 Assessing reasons to increase assets

Clients’ expectations of financial advisors: The sets of tables below should be interpreted together. A majority of clients says they would like to be contacted on a regular basis. However, a sizable minority (39%) says they would like to be contacted only when there is a change that affects their account. Still from the answers to the desired frequency of interaction we can interpret that they expect material changes to occur relatively frequently. Our interpretation is that 12/4/2 seems appropriate. The following table shows a summary of relevant statistical results on this topic:
Many clients claim that they would like to receive more calls than they currently receive; 12/4/2 seems generally appropriate according to clients’ expectations.

<table>
<thead>
<tr>
<th>Desired Frequency:</th>
<th>Actual Frequency:</th>
</tr>
</thead>
<tbody>
<tr>
<td># of calls</td>
<td>11</td>
</tr>
<tr>
<td>64%</td>
<td>16%</td>
</tr>
<tr>
<td># of portfolio reviews</td>
<td>2</td>
</tr>
<tr>
<td>59%</td>
<td>25%</td>
</tr>
<tr>
<td># in-person meetings</td>
<td>0</td>
</tr>
<tr>
<td>18%</td>
<td>49%</td>
</tr>
<tr>
<td># of calls</td>
<td>9</td>
</tr>
<tr>
<td>71%</td>
<td>13%</td>
</tr>
<tr>
<td># of portfolio reviews</td>
<td>2</td>
</tr>
<tr>
<td>68%</td>
<td>17%</td>
</tr>
<tr>
<td># in-person meetings</td>
<td>0</td>
</tr>
<tr>
<td>35%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Table 16 Clients’ expectations of FA – Part 1

Most clients are satisfied with the current contact schedule (12/4/2).

<table>
<thead>
<tr>
<th>Contact preference:</th>
<th>Assessment of Frequency:</th>
</tr>
</thead>
<tbody>
<tr>
<td>On a regular basis</td>
<td>Too often</td>
</tr>
<tr>
<td>52%</td>
<td>1%</td>
</tr>
<tr>
<td>Only when there is a change that affects your account</td>
<td>39%</td>
</tr>
<tr>
<td>I prefer to initiate contact</td>
<td>8%</td>
</tr>
</tbody>
</table>

Table 17 Clients’ expectations of FA – Part 2

4.3.2 Summary of Qualitative Findings

- FAs generally support Program Alpha strongly and believe it is a highly beneficial program to IBPCG’s business. Financial advisors also profoundly buy into quite the concepts of segmentation and (12/4/2).
- There exist consistent problems related to Program Alpha roll-out from a systems standpoint, which have hampered full program implementation. A standardized contact schedule paradigm, with access levels for financial advisors and client associates is a highly desirable item. Tools to generate customized reports, with deep integration into the TGA system would be highly valued by financial advisors.
Clients of Program Alpha financial advisors generally feel that the quality of services provided by IBPCG is high, even in comparison with other firms and are satisfied with the services provided by their financial advisor.

Clients have come to expect this level of quality, which meets but does not greatly exceed their requirements and represent good, but not exceptional, value for their money.

Clients generally praise highly the empathy and professional qualities of their FA and describe them as "trustworthy". However, while the numbers are high they seem to fall short of first-of-class and suggest that further service improvements are needed to meet that objective.

The number of contacts with their FA they desire is very close to 12/4/2. The majority of clients wants to have regular contacts, although a large minority wants to be contacted only when there is a need. In general, a large majority thinks that the number of contacts is about right.
Chapter 5  Operation Analysis

5.1  The service delivery framework\(^9\)

In the service delivery framework, the operation of a service firm is partitioned into three segments: external environment, internal environment and interface. The external environment encompasses product definition and differentiation. The internal environment concerns the issues of how a firm self-organizes to deliver the service to the customer through the interface. The interface, also called the “service delivery channel”, is the most critical segment representing the firm’s “moment of truth”.

\[\text{Competitive Analysis} \rightarrow \text{Strategic Analysis} \rightarrow \text{Financial Analysis}\]

\[\text{FA as Manager}\]

\[\text{Concept design} \rightarrow \text{Service Management}\]

\[\text{Marketing} \rightarrow \text{Server} \rightarrow \text{Branch Office}\]

\[\text{Information about needs} \rightarrow \text{Service Performance}\]

\[\text{External Environment}\]

\[\text{Interface}\]

\[\text{Orders Resources Decoupling}\]

\[\text{Source: Bitran, Lojo 1993}\]

Figure 10  Framework for analyzing service operations

\(^9\) MIT Sloan School professor Gabriel R. Bitran and Maureen Lojo, Doctor of Sloan School developed a framework for analyzing the strengths and weaknesses of firms engaged in providing services, synthesizing and building on the literature addressing service operations. Here we call it “Service Delivery Framework”
The external environment is where customers and competitors are present. The task of the management in particular is to understand the needs and wants of the clients (Servicing and marketing related) and to size up threats and opportunities of the competitive environment (strategy related). Product differentiation and segmentation of markets are necessary steps in developing a product-centric concept and marketing strategy. The management sets the strategy while the marketing and service sector are responsible for materializing and marketing the service.

The internal environment reflects the production, information processing and paper work related to the client. Traditionally, the view was that work could be conducted with great efficiency in the absence of the client. This is not necessarily true, as recent evidence from the field shows that many service-oriented businesses have been successful due to the fact that the internal environment was made more transparent to the customers. Designing systems to deliver services efficiently entails planning human resources, infrastructure, and operation control. The model introduced to improve service delivery in the case study suggests a total revamping of the internal environment to achieve a superior service. The internal environment is like the kitchen where client expectations are catered.

The interface is the segment in which the service is delivered to the customer. This interaction is the frontline where customer expectations meet the firm’s perception of the client needs. In this case, the servers consider the characteristics of the players involved when the encounter takes place and the factors that influence the interaction. Managing expectations and service quality are key tasks in the service encounter. This necessitates special considerations when designing training, assigning responsibilities in the internal environment, and delivering the service.

5.2 The service delivery framework prior to introducing change

By applying the aforementioned service delivery model to the case study before introducing changes the following framework is constructed (see Figure 11)
Figure 11 Framework for analyzing IB/PC service operations model

This model simplifies the complexity of IBPCG's environment. However, using it is an attempt to capture the relationship between the major functions and players in the case study.

5.2.1 IBPCG's external environment prior to Alpha

The external environment is generally managed and controlled by the FAs. The nature of the external environment depends greatly on the FA business model of conducting business where there is a commitment to provide consistent quality service and skills. In this context, the FA external environment concentrates on prospecting and marketing new products to existing clients.

10 FA business model relates to his/her willingness to team up with other FA’s, hire additional CA’s, rely on IT beyond the company platforms, cross selling products, outsourcing performance, and marketing strategy.
The FA way of prospecting is perceived to be unorganized and consumes valuable time. As a result, FAs are continuously conducting prospect calls leaving minimum time to initiate portfolio reviews. Materializing the service becomes an issue for FAs overloaded with unproductive large book sizes.

The marketing aspect is limited to referrals generated by clients themselves. FAs use a hybrid of marketing strategies ranging from mass marketing (seminars, mailing lists, cold calls) to customized mass marketing (professional groups and specific affluent groups) to one-on-one marketing (word of mouth, referrals, personal acquaintances).

5.2.2 IBPCG’s internal environment prior to Alpha

The internal environment is managed by two entities. The first, represented by the office management, owns the brand name and manages the physical assets of the office and the support infrastructure. The other, represented by the FA, owns and manages the relationship with the clients. Both entities coordinate to deliver the service to clients.

The office management is responsible for:
- Implementing company strategies
- Training on new products and programs
- Providing IT support on proprietary platforms
- Ensuring continuous flow of qualitative market research
- Offering access to investment vehicles and financial products
- Executing the service

The FA is responsible for:
- Managing the work flow of the internal environment to ensure proper delivery of his or her service
- Hiring additional support beyond the standard offering of the management
- Organizing the functions among the staff
- Creating a customer relationship management structure to maintain client satisfaction and avoid retention.

55
Under this context, the client relationship management (CRM) model is highly individualized and in most cases does not reflect the IBPCG brand power but the FA work style.

There are no standard procedures for organizing the back office environment for FAs. Site visits to offices in Boston and Kansas revealed that the internal environment is organized in clusters to serve either individual or FA teams. The clusters are micromanaged by the FA and they tend to reflect his or her style of doing business. Many client associate (CAs) and investment assistants (IAs) have described the back room environment as unpredictable workload, hectic schedule and unorganized at some points.

5.2.3 IBPCG’s interface prior to Alpha

Interfaces take place in three forms: mailings, phone conversations, or face-to-face meetings. Interface also goes through two phases: prospecting and ongoing relationships. In prospecting, the FA relies initially on the phone to establish contact and later on face-to-face meetings to establish the service. From thereon, the typology, frequency, and quality of the interface vary widely depending on the size of the account, the composition of the portfolio, the market conditions, and the client’s changing needs.

These variables constitute a matrix of 12 other variables that the FA has to maintain full awareness of in order to keep the client satisfied. Given an average of 500 accounts per book size, the FA could be monitoring 6000 variables on a daily basis. The increased role of business media in the life of investors, irrespective of age and occupation, is constantly shaping the quality and frequency of the interaction between FAs and clients.

Most FA business models used to be structured around “bigger book size is better”. Average asset per account and average book size per FA were considered as metrics for success as opposed to minimum allowable account size and maximum number of books per FA.

An FA’s average book size was over 500 accounts and the average asset size per account would range between $1.5 and 2.0 million. Field research indicates that the IBPCG industry has a “90/10” marketing rule which translates that the average FA production comes from 50 accounts.

The FA plays also multiple roles:
Co-manager of the entire service delivery system with branch office management,
Manager of the client interface module individually or as part of a team with
either one or more CAs,
Marketer and packager of products,
Prospector of new clients,
Updater of the portfolios.

In this context, the way the FA manages his or her time becomes extremely critical to
ensure a constant delivery of a qualitative and reliable service.

5.3 The service delivery framework after introducing changes

![Diagram of service delivery framework]

Figure 12 IBPCG service operations models after introducing change

Since the FA is the owner of the relationship and the virtual manager of the backroom
operations, while the customer represents the ultimate recipient of the service, any change
to the system delivery model has to address these 2 important poles. The framework
below represents the changes introduced to the system of delivering services in the
IBPCG case study.

5.3.1 IBPCG’s external environment under Alpha

The external environment under Alpha is still managed and controlled by the FA but benchmarked against a standard process for materializing the service. The new process is based on preparing folders for each client depending on the type of interface (face to face meeting or phone conversation). The external environment is structured to provide the customer with enough interaction with his or her FA to improve the quality of service and reduce the calling rate to the branch. For more efficiency, the FA should also adopt a new marketing strategy (smart marketing or cloning the best clients) to leverage the increased commitment to a select group of clients. Cloning existing clients assumes 2 conditions:

➢ Client appreciates folder system and frequency of interface to the extent he or she realizes the value added and start recommending the services to others
➢ The FA has the ability to conduct smart marketing by listening to success stories

Results from interviews with 75 FA show that the rate of acquiring new households worsened. No conclusive evidence can explain why this has happened but preliminary results from focus group interviews with FAs participating in the program reveals that they are somewhat optimistic but need more assurance that the new system delivers results despite the skepticism of some FAs. Few acknowledged that they need to:

➢ Have all FAs adhere to client segmentation (migrating accounts less than $1,000,000),
➢ Have all accounts annuitized,
➢ Set up the folder system
➢ Introduce some changes to make the program mandatory, so the FA operates in a homogeneous environment

Finally, the FAs feel that the acquisition of new households faces 2 constraints: (1) the current market conditions and (2) more time needed to bring the delivery of services up to management expectations.
Program Alpha must align management expectations with FA expectations. Management expects the FAs to change the way they do business in a record time, while the FAs expect that by adhering to a new program they will have greater control of time and resources to increase assets, production, and rate of return. The survey results show that neither is happening in the timeframe under which everyone is operating.\textsuperscript{11}

The FAs' mental model of implementation time for the 3-phase program is 18 months. Many FAs who participated in Program Alpha in August 2000 have not yet reached the acquisition phase\textsuperscript{12}

5.3.2 IBPCG’s internal environment under Alpha

The internal environment has undergone considerable change. Program Alpha created new processes and distributed tasks between the FAs and the CAs. However, task distribution and CA participation vary widely from one branch office to another\textsuperscript{13}. In the Northeast, FAs seemed under the assumption that Program Alpha did not require some form of internal work process redistribution. In contrast, the Midwest FAs assumed a greater role for CAs, who in turn were empowered to customize Program Alpha requirements to optimize the workflow in the office and improve productivity. The figures below show the tasks to be performed by FAs and CAs as per Program Alpha training manual recommendations versus the actual perception and implementation\textsuperscript{14}:

\textsuperscript{11} See survey results in chapter 4
\textsuperscript{12} 24 months were needed to change the business model and the mentality of the clients as well
\textsuperscript{13} The comparison is made between a Northeastern and a midwestern branch office.
\textsuperscript{14} The recommended roles are stated in the training manual while the actual implementation is based on focus group interviews
### FA Role Week 1-4

<table>
<thead>
<tr>
<th>Recommended</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete the Initiation Report and Mail Back to Your Complex Team</td>
<td>Model assumes FA is committed from day one, actual implementation 12 to 20 weeks</td>
</tr>
<tr>
<td>Best Practice: Include CA in discussion of which clients to retain</td>
<td>Practiced when CA was part of the training. This step is actually delegated to the CA</td>
</tr>
<tr>
<td>Immediately give list of clients to be distributed in office to your manager</td>
<td>Not practiced</td>
</tr>
<tr>
<td>Begin Calling Clients to discuss Your new 12-4-2 Service Program</td>
<td>FAs need a warm up period and more practice on the service, timeframe not adequate</td>
</tr>
<tr>
<td>Explain Benefits to them (12 Contacts, 4 reviews, 2 Mtgs)</td>
<td>Overwhelming agreement from FAs that the formula is appealing to clients</td>
</tr>
<tr>
<td>You will only be accepting new clients via referrals with only X spots currently available.</td>
<td>Sales pitch overly used in the business</td>
</tr>
<tr>
<td>Call Clients you are distributing and explain the change in your business</td>
<td>Role is given to CA most of the time, FAs do not want to do this job</td>
</tr>
<tr>
<td>Discuss ISG and Office Distribution</td>
<td>Role is also conducted by CAs most of the time.</td>
</tr>
<tr>
<td>Have Similar Discussions with Clients you labeled prospects. Fill or Kill in 3 Months</td>
<td>Task taking over 9 months, the market conditions play a big role in the delay</td>
</tr>
</tbody>
</table>

### FA Role Week 5+

<table>
<thead>
<tr>
<th>Recommended</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start Executing Client Appointment Schedule</td>
<td>Assuming that adoption starts right after training seminar. Not all FAs are using the folder theory yet</td>
</tr>
<tr>
<td>SMART Market Clients and Prospects</td>
<td>Some FAs reluctant to smart market, wait and see value of the new service</td>
</tr>
<tr>
<td>Keep Telling Your Service Story every time you make an Outgoing Call or Quarterly Review Call</td>
<td>Easily applicable and conducted by all team members including CAs and Ias</td>
</tr>
<tr>
<td>By now you will be removing additional passengers that have elected not to adopt your investment philosophy.</td>
<td>Too wishful. FAs tend to accommodate passengers even with conflicting investment philosophy, maintaining a higher than average annuitized assets per book play a big role in keeping them too</td>
</tr>
<tr>
<td>Prospects must be upgraded or segmented</td>
<td>Not happening</td>
</tr>
<tr>
<td>Use of 12-4-2 for prospecting</td>
<td>Currently considered as part of core marketing</td>
</tr>
<tr>
<td>Put qualified prospects on 12-4-2 for 3-6 months</td>
<td>Practice takes 9 and 12 months to prove (12-4-2) service commitment to clients</td>
</tr>
<tr>
<td>Start giving 12-4-2 for the best 10 clients you lost in the last 3 years</td>
<td>No interviewed FA is actually doing it. Reason for loosing the client play a big role in not going back even with a new service commitment</td>
</tr>
</tbody>
</table>

Table 18 FA Role
## CA Role Week 1-4

<table>
<thead>
<tr>
<th>Recommended</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete Initiation Report with FA. Voice your opinion about who should go and stay!</td>
<td>Empowerment left at management and FA discretion.</td>
</tr>
<tr>
<td>Print copy of Passenger List. Assemble permanent project Alpha hanging Folders for passengers, not needed for Butlers.</td>
<td>Took an average of 4 to 12 weeks to get prepared, FA motivation played a key role</td>
</tr>
<tr>
<td>Order necessary 6-sections for daily events. Customize project Alpha Inserts for teamFA.</td>
<td>The task was better accomplished when CAs got managed collectively the job</td>
</tr>
<tr>
<td>Clean Out Your Permanent Files. Discard Outdated information. Archive off-site or Distribute Files for any client you are not keeping.</td>
<td>Task was completed on time</td>
</tr>
<tr>
<td>Once in receipt of project Alpha Software, arrange clients as needed by you and your FA</td>
<td>It is not the case, software is not simple to customize and easy to use, Support is constantly needed after 6 months of installation</td>
</tr>
<tr>
<td>Even Load, No Fridays</td>
<td>Software too rigid to implement task as recommended, hard to predict client schedules</td>
</tr>
<tr>
<td>Block Out Specific Days</td>
<td>Constraint found useful by FAs to organize the back office environment</td>
</tr>
<tr>
<td>Print out calendar for FA to begin making Outgoing calls and Quarterly reviews</td>
<td>Highly critical and important task, yet calendar keeps changing</td>
</tr>
<tr>
<td>Begin scheduling appointments appearing on Calendar 2+ weeks away</td>
<td>Implementation as recommended</td>
</tr>
<tr>
<td>Monitor FA Progress each day on making outgoing calls</td>
<td>Implementation as recommended</td>
</tr>
<tr>
<td>Execute Distribution of Clients you are giving to other FAs. Yours until you change the FA Number!</td>
<td>Not implemented</td>
</tr>
</tbody>
</table>

## CA Role Week 5+

<table>
<thead>
<tr>
<th>Recommended</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Should Have Daily Routine for completing Next Days Folders</td>
<td>Better executed among teams of CAs, lack of sufficient office printers is a major constraint</td>
</tr>
<tr>
<td>Process Items in Daily Folders Returned to You</td>
<td>Better executed among teams of CAs, lack of sufficient office printers is a major constraint</td>
</tr>
<tr>
<td>Schedule Face To Face Meetings 2-3 weeks out</td>
<td>Implementation as recommended</td>
</tr>
<tr>
<td>Schedule Quarterly Phone Reviews about one week in advance;</td>
<td>Implementation as recommended</td>
</tr>
<tr>
<td>Screen Client Calls for possibility of holding off until monthly scheduled calls:</td>
<td>Efficiently implemented when CAs, IAs and telephone operator coordinate together.</td>
</tr>
</tbody>
</table>

Table 19 CA Role
As described above, the back office was not as homogeneous as Program Alpha anticipated it. Nevertheless, the internal environment became more structured and workflow was better managed. Despite potential multi co-linearity between impact of Program Alpha on the service delivery process and the internal environment staff having more time to prepare and execute the service due to sagging market conditions, research findings point out that back office process management needed overhauling and more standardization to align operations with management strategies. Program Alpha brought much of the required changes into the picture.

Implementing the Folder Theory is crucial to the success of this program; therefore, Program Alpha requires the branch management to dedicate a workstation to manufacture folders each night\textsuperscript{15}.

5.3.3 IBPCG’s interface under Alpha

The interface has improved by many standards. The objective of Program Alpha is to affect the client mental model in three ways:

- The client abstains from initiating phone calls to FAs because the monthly call or quarterly review is around the corner:

  "Mr. Smith, this is Lisa with John Jones office. Next Monday we are scheduled to conduct a monthly or quarterly review of your portfolio. John will need about 45 minutes to complete the review. Will (Time) be OK for him to call you at this number?"

- The client accepts service from other members of the team than the FA by bringing the CAs and IAs to step up their role at the client interface level:

  "Mr. Smith, I see that you are scheduled for your regular call next Wednesday. The FA is conducting a semi annual review at this time. However, he instructed that if this is a market related I could interrupt him. Is this market related or something I can possibly help you with?"

- The client realizes that FAs are more focused, prepared, and systematic by applying 12-4-2 and therefore clients might be willing to help the FA with smart marketing.

\textsuperscript{15} Source: IBPCG Train the Trainers Course Manual
As a result, the FA daily monitoring dropped from 6000 variables to maintaining complete control of 144 variables related to 10 passengers, 1 butler, and 1 prospect per day.\footnote{Number of seats per day from the IBPCG Train the Trainers Course Manual}

After program Alpha was implemented, the FA business model changed from \textit{"bigger book size is better"} to \textit{"adhere to a maximum allowable book size to maintain optimum service delivery"}. Further, the FA average asset per account was increased to ($1,000,000) and average book size took a sharp reduction from 500 accounts to 300 in total based on a new classification of customers. The figure below reflects the new client classifications.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure13.png}
\caption{Distribution of FA’s book based on newly created client segments\footnote{Source: IBPCG Train the Trainers Course Manual}}
\end{figure}

The segmentation of clients revolutionizes the FA production structure. Instead of the "90/10" marketing rule, the FA’s production is now generated from 60% of his or her portfolio with upside tendency.
The FA role has also been fundamentally modified to allow for more efficiency and higher productivity. In addition, the FA is more focused to serve the high net worth clients. As a result, the FA still plays multiple roles with major modifications:

- The FA co-manages the entire service delivery system with his/her team of CAs and IAs,
- Branch office management has a more supportive role, and manages the relationship with IBPCG back room environment
- The FA manages the client interface module individually or as part of a team with either one or more CAs,
- The FA employs new marketing techniques,
- The FA is more focused on prospecting new clients,
- The FA is better organized to conduct routine update of the portfolios.

Figure 14 Recommended Time Utilization under Program Alpha

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18 Based on 1 FC/IA team, 40 hours per week, and 4 weeks vacation per year, source: Source: IBPCG Train the Trainers Course Manual

18 Based on 1 FC/IA team, 40 hours per week, and 4 weeks vacation per year, source: Source: IBPCG Train the Trainers Course Manual
In principle, the new context offers the FA more time to manage the relationships with high-net-worth clients. In addition, more resources from the internal environment are brought forward to assist in the delivery of the service. The changes introduced not only insure a constant delivery of a qualitative and reliable service but also make the service one of IBPCG’s competitive advantages. To achieve all of these, Program Alpha recommends FAs to arrange time utilization, as shown in Figure 14 (please refer to Figure 5 for FAs’ time allocation prior to Alpha) and FAs’ time allocation should show a significant change. Figure 15 shows the current situation under Program Alpha. We can see most FAs have not reached the recommended level of time utilization yet.

![Pie Chart]

Figure 15 Average Time Utilization under Program Alpha\textsuperscript{19}

Empirical evidence from interviewing 75 FAs who adhered to Program Alpha shows a strong improvement in reducing errors during execution (-54\%)\textsuperscript{20}. Despite the encouraging start, we believe it is too early to conclude that the rate of reduction in errors

\textsuperscript{20} Source: results from phone surveys conducted on 75 FAs who self assigned themselves to the new program
during execution has dropped solely because of Program Alpha; other factors have come into play since the launch of the program, namely:

➢ The FA has greater knowledge about the needs and wants of his /her top producing clients.
➢ The bear market conditions provide ample opportunity for the back room environment to conduct multiple screening before execution.

The new FA weekly time utilization affects the FA work style and even lifestyle. Much of the FA independency is exchanged with predictability, medium term with long term time agenda planning, and finally “schmoozing” time is reduced to 4 weeks a year including vacation. It is not unusual to see some form of delay or even resistance in implementing change when FAs perceive Program Alpha as a tool to restructure both the external and internal environment, whereas the external environment was historically considered part of the FA core self practice and any change in it should be initiated by him or herself.

The remaining 50% of the FA time dedicated to preparation and acquisition relies heavily on 9 elements:

1) Reorganization of the work process in the internal environment
2) Empowerment of the IA and the CA
3) Efficient outsourcing of strategic analysis
4) Smart marketing instead of multiple marketing
5) Ability to change the mentality of the customer to rely on a contact schedule instead of sporadically calling the FA
6) Ability to change the customer mentality by accepting service from other members of the team than the FA
7) Efficient preparation of folders and implementation of schedules
8) Adequate IA and CA computer literacy
9) Ability to combine the various client contact systems used by the company and the FAs

Focus group interviews conducted in branch offices where the program was

21 Source: IBPCG Train the Trainers Course Manual
implemented showed that the 9 elements are key to the success of the implementation.

5.4 FAs’ adoption of Program Alpha: 3 phase implementation

We have observed from our field interviews that FAs have adopted Program Alpha in
different ways. We developed a classification for the adopters of Program Alpha that can
be divided into 3 groups, which are described in further detail below.

5.4.1 The Followers: FAs applying one phase at a time

FAs in this group perceived Alpha as a 3-phase approach. Each phase is launched
after the completion of the previous one. They are concerned about Program Alpha final
outcome but have a strong belief that the current service delivery model needs
improvement.

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEGMENTATION</td>
<td>ORGANIZATION</td>
<td>ACQUISITION</td>
</tr>
</tbody>
</table>

They believe improvement starts with more support from headquarters in human
resources and flexibility in segmentation criteria. The main reason they are still in the
program is the sagging market conditions, which leave them with no other alternatives so
they might as well play the game. FAs in this category can be characterized as followers
and would be the first to quit if market conditions change. They are taking a long time to
become adopters and resist changes.

5.4.2 The Partial Adopters: FAs customizing Alpha to fit their style

Partial Adopters consider the organization phase to be too complicated, labor
intensive, time consuming, and requiring a great deal of financial and human resources.

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEGMENTATION</td>
<td>ACQUISITION</td>
</tr>
</tbody>
</table>

These groups prevail in areas where top-down complex management support was not
evident throughout the process. It was left to the FA’s discretion to subscribe to Alpha
and no incentive were offered or promised upon joining. Partial adopters have taken more than 18 months to reach phase 3.

5.4.3 The Innovators: FAs customizing Alpha to fit their style

FAs and CAs undertook segmentation and organization at the same time. Strong office coordination helped expedite the first 2 phases. Some FAs started phase 3 independently from phase 1 and 2 using smart marketing as a tool.

Complex management support plays a key role assisting FAs in consolidating the first 2 phases. Some evidence shows that incentives were promised at the onset when FA subscribed to Alpha. Innovators have taken around 6 months to reach phase 3.

5.5 Distinguishing characteristics of the service operation

Service operations require different skills in the management process. The following attributes are used to measure Program Alpha capacity in assisting FAs and CAs materialize the service.

5.5.1 Intangibility of the service model

The service offered by IBPCG is composed of both physical items (portfolio) and intangibles that are both explicit (12-4-2) and implicit (psychological benefits)\(^{22}\). The intangible nature of the service is directed towards satisfying customer needs associated with convenience, personal satisfaction, and frequently involves feelings\(^{23}\).

Program Alpha offers the following:

- 12-4-2 allows FAs to manage client expectations as far as organizing the frequency and typology of the interface. Based on FA testimonies, clients can now expect FA calls rather than chasing them down. These testimonies could not be verified through the phone survey.

\(^{22}\) Sasser, Olsen, and Wyckoff, 1978

\(^{23}\) Bitran, Lojo, 1993
Face to face meetings help address the clients’ perceptions of quality service. These meetings involve feelings and voicing satisfaction as well as concerns. When FAs are equipped with an up-to-date and comprehensive folder of the client situation, the latter perceive the service as proprietary. IBPCG uses a yearly survey to monitor client satisfaction; the impact of this attribute will not be determined until the next survey with slight focus on the 12-4-2 intangible aspect of the survey.

Other competitors will soon catch up with the Program Alpha concept (already most of the competitors are advertising similar client centered frameworks). What makes Alpha more appropriate and relevant for IBPCG is (1) it complements other existing programs and (2) it integrates the service delivery chain to achieve client satisfaction.

Clients do not expect FAs to call but they are concerned when they do not call. The service is materialized in the foreseeable future. Clients are made aware that they have been served. Alpha makes the client conscious that the lack of problems is a direct consequence of the FA taking good care of their wealth.

5.5.2 Perishability of the service

The nature of the service industry means that services cannot be inventoried in the traditional sense\textsuperscript{24}. The financial industry is characterized by a fast pace in information turnover, which requires FAs to update all client information continuously and manage supply and demand of ad hoc requests by clients. Alpha seems to manage this by the following structures:

- Information is updated on a monthly basis to prevent Perishability of the service.
- During idle time (no interface with clients), the back office is preparing folders for the upcoming encounters (via phone or face to face). As a consequence, the office is supposed to be better prepared to handle overshooting in demand for service by clients. The soft market conditions created more idle time to the back office operations making it difficult to measure the impact of Alpha on managing

\textsuperscript{24} Bitran, Lojo, 1993
supply and demand. In our view Alpha offers a preventive maintenance to manage supply demand of services and reduce idle time in the delivery system.

5.5.3 Heterogeneity of the service

Humans tend to be inconsistent in their delivery and consumption of services. FAs, CAs, and clients are no different. This creates a major challenge for managers of quality service firms to ensure that FAs and CAs will behave consistently and be well prepared to deal with customer diversity\textsuperscript{25}. The use of computer programs helps significantly reduce heterogeneity\textsuperscript{26}. The CRM program Alpha introduces is comprehensive and covers all aspects of IBPCG service delivery. However, it seems the program is not aligned with the company systems and does not take into account the various IT equipment used by staff. Although encouraging consistency is crucial for dealing with the heterogeneous nature of the service, flexibility to customize the service is as important as delivering it. Focus group results indicate that the software program is too rigid and need substantive customization to accommodate FAs. Finally, operation management researches suggest that Alpha software program requires extensive training and organizational support before rolling it out. The current training and organizational supports fall short from reducing heterogeneity in the system.

5.5.4 Simultaneity

Another aspect of service deliver is that it is produced and consumed at the same time. It is very hard to correct a blunder once committed during a face-to-face meeting or phone conversation with customers. Alpha helps establish accurate and efficient information processing for each transaction. Data is made available and reviewed before the encounter. To reduce blunders FAs and CAs need to be well prepared and committed to the folder system. In theory, FAs omitting the organization phase are running the risk of blunders, namely because data could be better organized and updated. The uses of folders simplify the follow up by other team members such as CAs and IAs and help

\textsuperscript{25} Bitran, Lojo, 1993
\textsuperscript{26} Schein, Organizational Culture and Leadership, 1985
maintain the simultaneous nature of the service at minimum blunder risk. If Alpha is rolled out, organization ought not to be a matter of choice.

5.5.5 Transferability

Alpha does not bring innovation to the service delivery system of IBPCG. It replicates service concepts from other service sectors that high-net-worth individuals (HNWI) expect to receive. Research indicates that customers compare service quality to other non-related service providers.27 As a result, customer expectations become transferable from one type of service to another. IBPCG needs to monitor new development and innovation in delivering quality service for HNWI not only in its own industry but also in other service industries such as ultra luxury hotels chains, airline, etc.

5.5.6 Cultural Specificity

The cultural context in which the service is consumed can be viewed as an attribute to the service itself.28 Within this context, the familiarity and shared culture and values between customers and FAs were considered as the basis of the relationship. When client accounts were migrated to other programs, concerns arose about potential attrition of clients due to the culture difference between the call centers and the FAs. The results of the phone survey indicate that clients who were transferred to another FA or call center generally did not show any significant negative behavior.29 IBPCG brand name and reputation of quality service across service channels offset negative impacts from cultural specificity. It is worth noting that FAs played a big role in reducing the anxiety factor of clients migrated to other service programs.

27 Bitran, Lojo, 1993
28 Bitran, Lojo, 1993
29 IB/PC management science group report on Program Alpha business impact evaluation survey
Chapter 6  System Analysis

The first main goal of this System Dynamics approach to evaluating Program Alpha is to generate program implementation insight that can enhance understanding of the fundamental dynamics behind Program Alpha deployments to date. Secondly, this approach allows for an exploration of organizational, operational and behavioral drivers and hurdles to Program Alpha implementation.

6.1  System Dynamics Overview and Justification

6.1.1  The dynamic nature of an organization

Researchers and managers usually describe an organization of any size or function as an ecosystem of complex interrelationships and interdependencies. While various components of a business are directly and very clearly interconnected, the relationship between disperse elements in an organization is oftentimes difficult to explain or represent in a robust way. These can be financial, economic, operational, organizational, behavioral or even psychological links that all compose a multi-dimensional web of direct and indirect relationships that determine the evolution of a business and its people.

Aside from the fact that certain interrelationships in a system or organization are not generally explicit because they are not direct, it is also the case that time-delay factors can typically make it even less evident to predict that changes in a particular element of the organization may affect others in a significant way. This is especially true in situations where, due to long time delays, secondary effects of a policy can only be perceived many cycles later, possibly after revisions to the original policy have already been implemented. This dynamic may lead to inaccurate perceptions of the true effects of a certain policy and its consequences to the organization in the long run.

Policy resistance is a very common problem faced by managers of all large organizations in the world today. As discussed above, the majority of second- or higher-order relationships between elements of an organization are not apparent and time delays can make it impossible to follow the effects of policy implementation throughout the
entire business. Because of these difficulties, it is very often the case that well-intentioned efforts to address pressing problems or business needs lead to delayed, diluted or undesired results, caused by the unforeseen reactions of other individuals or of the organization itself. It is not uncommon to observe scenarios where the best efforts to solve a problem actually make it worse.

6.1.2 System Dynamics Overview

System Dynamics is a method to enhance learning in complex systems. In a similar way as airlines utilize flight simulators to train pilots through various flight conditions and help them learn, System Dynamics can be helpful in generating management flight simulators to help learning about systems complexity, in a way that allows for policies to be tested at a high-level and effects to be analyzed over various time horizons prior to the actual application of a policy.

System Dynamics in itself is a set of conceptual tools for formally representing the relationships among elements of a complex system. It is also a rigorous modeling technique that allows for the construction of detailed computer simulations based on these models and grounded in the theory of nonlinear dynamics and feedback control developed by engineers, mathematicians and physicists.

The central skill of a System Dynamics modeler resides in identifying and formally representing the feedback structures of a system. Careful selection of stocks and flow variables, time delays and non-linearities, along with focused brainstorming to determine the nature of each relationship, can lead to a robust representation of the essential dynamic behavior characteristics of a system.

The majority of System Dynamics practitioners today make use of a graphical representation technique for complex systems known as causal loop diagrams. These diagrams are simple in their nature, and yet capable of easily capturing the feedback structures of a system of many interacting parts. Using this representation, it is easy to see that all dynamics arise from the interaction of just two types of feedback loops: positive (or self-reinforcing) and negative (or balancing/self-correcting) loops.

Figure 16 illustrates a very simple example of interaction between a self-reinforcing
and a balancing loop:

![Diagram of balancing and reinforcing loops](image)

**Figure 16 Example of Interaction between a self-reinforcing and balancing loop**

- An intuitive representation of population growth says that a higher population level leads to a higher absolute birth rate, which, in turn, contributes to an increase of the population level itself, and so on. This is a self-reinforcing loop that is capable of generating exponential increases in its variables.

- As population level increases, it is also the case that the absolute death rate will go up, as more people reach advanced ages, which, in turn, causes the growth in population level to slow down. This is a balancing loop that causes, over time, a dumping effect in the system and can counteract the effects from a self-reinforcing loop.

Another critically important characteristic and advantage of System Dynamics as a modeling methodology is its flexibility for representing the interactions between quantitative and qualitative elements, specially human factors such as expectations, perceptions, risk, support, knowledge and effort, to mention a few. The modeling exercise in the following sections will make extensive use of this characteristic for representing elements of Alpha.

6.1.3 System Dynamics in the context of Project Alpha

A high-level look at the Alpha implementation process is sufficient for one to suggest
that the initiative as a whole lends itself very well to a System Dynamics analysis. The primary reason for such is the existence in the system, defined here as the entire Private Client organization, of a large number of time-delayed mechanisms and interrelationships between factors of human and operational nature.

Time delays are most often present in business policy implementation scenarios where human processes are affected, directly or indirectly, by the changes being introduced. Humans whose work processes are undergoing changes need time to learn new tools, new approaches to doing business, or even an optimal way to interact with new colleagues in a department given the different scenario being introduced. People also need time to phase out of their current habits and attitudes before they are fully accommodated in a new model. All of these activities simply take time.

In the context of Program Alpha implementation, several time-delayed mechanisms have been observed. Some examples include:

➢ **Knowledge acquisition:** looking at Program Alpha as a fundamentally new philosophy to serving clients' needs, the implementation process entails a relatively complex knowledge installation process. From initial kick-off training to several other levels of knowledge transferring and recycling, the time it takes for a financial advisor to be completely accustomed to Alpha can easily approach 2 years.

➢ **Client migration:** the process of transferring clients away from the auspices of a financial advisor and either into another financial advisor or a different department within the Private Client business can take some time. Firstly, there may be psychological ties that prevent the personal relationships from ceasing easily. The client may also require intense hand-holding throughout the process and it may be quite a few months until the financial advisor can completely let go and still be relatively secure that the client will not withdraw from the firm a significant portion of invested assets.

➢ **Acceptance:** a financial advisor cannot be expected to instantaneously accept and fully adopt a completely new service paradigm that modifies the fundamental basis on which he/she works on a daily basis. This acceptance process is lengthy
and has dependencies on observation of results and interactions with colleagues undergoing the same process. Once again, this is a time-consuming process.

➢ **Technology adaptation and new processes**: one of the principal elements of Program Alpha is the new segmentation and client management system introduced with the program. Despite the fact that the system initially introduced will still undergo an improvement and standardization process, it is fact that an effective Alpha financial advisory team (FA + CA) will need to make use of IT systems intensely in order to reach a high level of performance and efficiency. Training and ramp-up time for those new systems can be a particularly lengthy project, specially for certain financial advisory teams currently not relying much on IT.

Time delays aside, most of the mechanisms involved in the implementation of Program Alpha at The Firm include factors of various natures interacting in real-time to produce all the effects associated with the program, whether desirable or non-desirable. Factors accounting for various modes of system behavior may come from organizational, operational or psychological sides.

These multi-factor/multi-disciplinary mechanisms will be explored in detail in dynamic hypotheses presented in the following sections, but overall it suffices to say they represent a complex interaction that is not easily and singly accounted for by statistical, financial or optimization models.

6.1.4 Dynamic insight

The value of System Dynamics in evaluative stages of Program Alpha consists essentially of projecting the potential magnitude of impact that various factors may have on the system over time, as the program continues to be implemented across the country. The System Dynamics micro-models presented in the following sections for the most part explore the effects that operational levers can have over the financial advisor’s team, in terms of perceptions, expectation forming and even performance and effectiveness.

While the models and dynamic hypotheses explored in the next section are far from being thorough to the point of simulating reality, they do contain elements that resemble
the general dynamic behavior observed not only in the context of Project Alpha, but also in a variety of similar scenarios explored by experts from the field during the last three decades. The level of insight expected from these models is:

- **Delayed effects**: assess the potential order of magnitude of policy effects only perceived after significant time delays.
- **Policy interaction**: assess the consequences of overlapping various (possibly semi-contradictive) implementation policies or guidelines.
- **Operational gaps**: evidence and amplify the effects of operational gaps in the system by simulating extreme scenarios.
- **Attitudinal impact**: assess the level of impact of current operational gaps on future attitude and behavior (e.g. accumulating frustration).

Despite the importance of the items above, perhaps the principal value generated by the exercise of building a System Dynamics macro-model such as the one introduced in the next section, however, comes not exactly from the model or the simulations themselves, but from the building process.

The model building process is one that relies heavily on participation of individuals who understand the system deeply at different levels and from different points of view (operational, strategic, managerial). Not only does the process allow for these individuals to lay out their thinking in great detail, it accomplishes two very important tasks.

Firstly, it forces all minds around the table into a structured thinking process centered around a fundamental understanding of the system rather than on the need to make a decision under pressure. Secondly, it forces these individuals into expressing their mental models and explicitly opening them to colleagues who may be able to point out a number of the inherent flaws.

In summary, the System Dynamics modeling process creates a healthy discussion forum that stimulates critical thinking and constructive criticism that ultimately leads to a better collective understanding of the dynamic complexity of a system, even before any models are finalized and simulated. In order for that process to be optimal, participation from a high number of individuals of different specialties/focus areas is not only
important but also necessary.

6.2 The Program Alpha macro model

The first step in the System Dynamics modeling process consists of constructing a high-level picture of the system under consideration. The following diagram illustrates the approach selected for this project. We explore organizational, operational and behavioral drivers and hurdles to analyze the dynamics of Program Alpha implementation.

![Diagram of Organizational, Operational and Behavioral Drivers]

*Figure 17 Organizational, Operational and Behavioral Drivers*
6.3 Program Alpha micro-models and dynamic hypotheses

In this section, we will separately analyze various components of the macro-model introduced in the previous section. Each micro-model is associated with a dynamic hypothesis, which is an assumption as to how the system would likely behave under various conditions of the input parameters.

A typical approach to System Dynamics modeling would call for a series of management brainstorming sessions to create initial dynamic hypotheses such as the ones presented in this section. The process that would naturally follow would involve in-depth data gathering and interviewing of numerous individuals involved with the “system” under discussion. The subsequent step would be a systematic modeling and simulation effort that not only validates and adjusts the dynamic hypotheses presented, but connects them in a coherent fashion. After various iterative review steps, the end result is a functional System Dynamics model that can be used as a tool in various occasions, including training, decision support, forecasting, or simply as a jointly produced representation of an organization and its dynamic behavior, for management reference.

This section presents preliminary results of the very first step of the System Dynamics modeling approach outlined above. Based on data from management interviews, focus groups and the telephone interviews (FAs and clients), many micro models and corresponding dynamics hypotheses were generated and three of them are presented here.

6.3.1 Micro model: Management incentives and motivational support

From very early discussions held with The Firm’s management during the early phases of this project, it appeared that one of the central elements in generating interest and promoting successful deployments of Program Alpha was, in fact, the level of managerial support at various levels to the program.

Comparing observations made at the Boston and Kansas City complexes, it became quite clear that the level of management commitment to Program Alpha in either case differed significantly. While at the Kansas City complex, Program Alpha seemed to occupy one of the leading spots in the management’s agenda, in the Boston complex it
appeared that managers were committed to the program, but not as directly involved in pitching and pushing it as their Midwest colleagues. It was simultaneously observed that financial advisors in the Kansas City complex were substantially more knowledgeable about and interested in the program, as well as generally more advanced in its implementation.

Managerial support of Program Alpha involves allocating time and effort to understand, show support for, create incentives and clear obstacles to the program. Management support and incentive generally raise the interest level of financial advisors and make the program more attractive, as it demonstrated the potential for contributing to The Firm as a whole and to one’s own career.

![Diagram of Accumulated Effort, Need for Results, Immediate Results Observed, Supernova Attractiveness, Perception of Supernova Value, Management Support and Incentives, FA Belief in Supernova Potential, Frustration Loop (negative), Results Loop (positive)].

**Figure 18 Management Incentives and Motivational Support**

As Figure 18 above shows, as financial advisors start to perceive value in Project Alpha, they acquire an increasing sense of attractiveness by the potential of becoming an official ‘adopter’. As this perception builds up among financial advisors, it starts to get converted into actual implementation effort, which builds up over time. As a result of
continued effort and dedication to the program, some positive results are eventually perceived and those convert into an even greater perception of value in Project Alpha, closing the reinforcing loop ("Results loop").

At the same time, the more effort financial advisors accumulate in implementing Project Alpha, the higher their expectations become with regards to a psychological need to observe positive results. As expectations build up further and further, they come to a point where short-term results are not satisfactory, which leads to a drop in the perceived overall value of the program, which reduces the attractiveness level and so on. This rationale generates a balancing loop ("Frustration loop") shown also in Fig. 18.

The main reference modes for this micro-model are shown in figure 19. A reference mode is essentially an assumption or actual observation of a variable (very specific or very broad) that serves as a basis for a dynamic hypothesis, as well as a behavioral "check" for the system as modeled. The charts below are not particularly crafted from hard observations, but instead are a general interpretation of possible scenarios. They are, however, influenced by the comparisons drawn between the Kansas City complex and the Boston complex.

![Insufficient Management Support](image)

Figure 19 System Behavior: Insufficient Management Support

In the insufficient management support scenario, initial financial advisor excitement
is generated by early training exercises and overall stimulation provided my management, mostly a natural process due to the excitement normally associated with the “novelty”. At some point during the relatively early phases of Program Alpha implementation, a cease of continued and explicit management support and stimulation may cause the “Frustration” loop to kick in strongly and bring the system down quickly. Frustration rapidly leads to discontinued implementation effort and may even generate an anti-program mentality among financial advisors, represented in the graph by the asymptote negatively crossing the zero-effort level (shown in figure 19).

**Adequate Management Support**

![Graph showing the impact of adequate management support over time](image)

**Figure 20 System Behavior: Adequate Management Support**

Under the scenario of adequate management support (fig. 20), the same initial excitement level leads to a rapid increase in support and effort employed for implementation of Project Alpha. Throughout the program, management continually injects incentives and support into the system by constantly checking in with financial advisors and closely observing and reviewing their activities and results. By constantly feeding the reinforcing loop past the “success threshold”, this management support structure prevents the “balancing loop” from kicking in early and directs the system to a steady state mode where it is mostly self-sustaining.
6.3.2 Micro model: Training and on-site support

The dynamic hypothesis of this sub section claims that training and on-site support are separate initiatives from the point of view of how they influence the financial advisor’s adoption curve and effort level throughout the implementation of Project Alpha. Based primarily on observations from the focus group discussions and the financial advisory opinions expressed through the telephone questionnaires, it was determined that perhaps the specific role and value added of training and explicit support activities was not precisely delineated by the program designers and implementers. Along the same lines, it also seemed clear that the timing and content of training and “refresh” sections had possibly not been as carefully thought and planned such as to optimize their value to financial advisors.

As the diagram below shows, initial implementation effort by financial advisors is triggered by training activities that raise the awareness level and general Project Alpha-specific knowledge. Through a mechanism very similar to the one presented in the previous section, awareness is converted into implementation effort, generating results and an immediate perception of value, which in turn raises the attractiveness of the program to each financial advisor and continues to drive further implementation efforts. This rationale generates a reinforcing loop shown as Figure 21.

At the same time, we assume the existence of a “stock” of problems or implementation hurdles that are “discovered” over time. The discovery of such hurdles is directly proportional to the level of implementation effort being employed by financial advisors. As new implementation hurdles are discovered, more on-site support is needed to address those issues to allow financial advisors to move on with program roll-out. The more on-site support is needed, the less adequate any given level of support will seem to the financial advisor. The perception of inadequate support will lead, in turn and relatively speaking, to a decrease in the Project Alpha-specific skill level, which drives down the level of effort being dedicated by the financial advisor. This rationale generates a balancing loop shown above.
6.3.3 Micro model: Technology, support tools and the role of the CA

The dynamic hypothesis of this section claims that properly developed and well integrated technology and support tools are necessary requirements for a successful roll-out of Project Alpha. At the same time, the impact of proper technology and support tools cannot be fully realized without strong and active participation from client associates (CAs).

Observations from focus group discussions, management interviews and the telephone questionnaires all pointed unanimously to technology as the largest handicap of the current implementations of Project Alpha. Issues around the sheer functionality of the segmentation and client management system were brought up, mainly pointing to the fact that these new tools were not customizable to the needs of a financial advisor or to
particular client sets. At the same time, all financial advisors were strongly positioned in
favor of a much higher level of integration between the new systems and some of the
existing software, including the standard financial advisor platform (three-letter acronym)
and a standardized scheduling system.

The diagram below shows a micro-model that differs from the previous ones in its
structure. Rather than identifying high-level variables and their intangible relationships,
very specific and deterministic links between tangible elements were created. The
essential mechanism of this micro-model revolves around the role of the client associate
(CA) as the individual who serves, under an ideal Program Alpha scenario, as:

- **Filter**: screen calls and client issues in attempt to resolve them without having to
  access the financial advisor directly. This allows the financial advisor to focus on
  scheduled activities and follow the Program Alpha specifications more
  attentively.

- **Organizer**: have direct access to and be able to operate the IT systems that
  support the financial advisor. This allows the financial advisor to outsource
  secretarial level scheduling and schedule changing tasks to the client associate.

- **Enforcer**: have direct access to scheduling system. This puts the client associate
  in a position to ensure that financial advisors attend to every client commitment in
  a timely fashion.

There are three key variables in the diagram shown in the next page. The first
variable that influences the system quite profoundly is the client associate’s level of
Program Alpha skill, which comes primarily from direct training, as well as coaching
from the financial advisor.

Another important variable that affects the essential mode of operation of this model
is the share of incoming calls actually handled by the client associate. This number is
heavily influenced directly by the client associate’s Program Alpha skill level and helps
determine the actual rate of incoming calls passed to the financial advisor, which is a key
bottleneck to Project Alpha.

The final and probably most important variable in the context of this micro-model is
the main output number: proportion of scheduled phone minutes to incoming phone minutes. This variable indicates what proportion of time financial advisors spend with clients in systematically planned calls scheduled ahead of time versus calls initiated by clients directly, due to specific concerns or account-related questions. A high concentration of scheduled calls not only indicates that clients are properly “trained” to wait until the next call to ask questions, but also that client associates are playing an efficient role in keeping clients with “easy questions” away from the financial advisor if the topics are not critical, either by addressing them directly or convincing the client to postpone it until the next call.

Figure 22 Technology, Support Tools and the Role of the CA

6.4 Summary of findings

With respect to management's influence and support, district and branch managers
should be ready to play a very important role throughout the implementation of Project Alpha, especially in the early phases of discontinuity and uncertainty. Motivational support and explicit incentives may be necessary requirements for a successful kick-off of the program in districts, as well as successful development through steady state.

On the training and on-site support category, Program Alpha kick-off training sessions should be regarded as just the beginning of the educational effort required for a successful implementation. On-site support by individuals familiar with Program Alpha practice and tools is necessary for continued learning by FAs and CAs. “Refresher” training courses are also important on a regular basis even beyond steady state, but are not substitutes for an on-site support staff.

On the technology and support tools topic, CAs play a key role during Program Alpha implementation and execution: Filters, organizers, enforcers. Most FAs with 200+ accounts can only feasibly achieve the 12/4/2 service level for all passenger clients if they are able to eliminate a significant amount of time performing non-core activities, which should be fulfilled by the CA. Strong CA involvement in Program Alpha implementation and execution is ultimately a requirement for a successful transition into the “Client Acquisition” phase.
Chapter 7  Managing expectations: Gap Analysis

7.1  General concept of the “Gap Model”

The “Gap Model” was developed by Valarie Zeithaml, the assistant professor of Fuqua School of Business at Duck University, together with two other professors from A&M Texas. This model denotes the service-quality shortfall perceived by customers (Gap5) and the shortfalls within the service providers’ organization (Gap 1 through 4) aimed to link the customer and provider gaps in the form of a conceptual framework for understanding and improving service quality. Figure 23 shows the framework of the “Gap Model”.

➤ Gap 1: customers’ expectations – management perception gap shortfall

The essential to close the gap between the final gap – the service perceived and service expected gap – is to well understand customers’ expectation to the service. Key determinants of the service expected by customers include word-of-mouth communications, personal needs, past experience and external communications from the service provider.

Many of Service-firm executives perceptions about what customers expect from superior quality service were congruent with the expectations expressed by customers themselves. Executives may not always be completely aware of which characteristics connote high quality to customers. Managers may not know about certain service features critical to meeting customers’ desires; or, even when aware of such features, they may not know which levels of performance customers desire along those features.

➤ Gap 2: Management’s Perceptions – Service Quality specifications gap

Another prerequisite for providing high service quality is the presence of performance standards mirroring management’s perceptions of customers; expectations. In reality it is not easy to completely translate the executives’ understanding of customers’ expectations into service-quality specifications. Closing this Gap, by setting performance standards that reflect customers’ expectations, should have a favorable impact on customers’ service-quality perceptions (Gap 5).

30 See reference 28, the major content in section 6.1 are mainly quoted from Valarie Zeitham’s book.
Figure 23  Gap Model
Gap 3: Service quality specifications – service delivery gap

Even when guidelines exist for performing services well and treating customers correctly, high-quality service performance is not a certainty. A service-performance gap is still likely due to a number of constraints (e.g., poorly qualified employees, inadequate internal systems, insufficient capacity to serve). To be effective, service standards must not only reflect customers’ expectations but also be backed up by adequate and appropriate resources (people, systems, technology). Standard must also be enforced to be effective – that is employees must be measured and compensated on the basis of performance along those standards.

Gap 4: Service Delivery – external communications gap

Promises made by a service firm through its media advertising, sales force, and other communications raise expectations, which serve as the standard against which customers assess service quality. External communications can affect not only customers’ expectations about a service but also customers’ perceptions of the delivered service. “Broken promises” often causes the poor service quality.

Gap 5: Expected service – perceived service gap

The above four service-provider gaps contribute to the final Gap – the Gap between service perceived by the customer and the service-quality expected by customer. The key to close Gap 5 is to close Gaps 1 through 4 and keep them closed. To the extend that one or more of Gaps 1 through 4 exist, customers perceive service-quality shortfalls.

7.2 Applying the “Gap Model” to the case study

To conduct a comprehensive “Gap” analysis we need more to collect more information about the organization, business processing procedures, decision making process and the incentive system, etc. Actually which is already beyond the range of our research project. Here in this chapter we only illustrate several examples to show how we could evaluate the Program Alpha by applying this superior service-quality analysis model. For the time and information constraints we cannot provide detailed analysis and not seeking the solutions to certain problems we may identify.

From the literature review, we summarized the HNW1’s expectations to the private client service industry based on survey results of several consulting firms:
Need highly customized solutions
- Solutions brought to them without asking for it
- Kept fully informed, no surprises
- Want more and more dedicated attention (Andersen consulting research)
- Implementing advanced account aggregation initiatives

![Diagram showing the Gap Model applying to IBPCG](image)

**Figure 24  Gap Model applying to IBPCG**

7.2.1  Gap 1: HNWI clients’ expectation from the private client service firm

From the interview with the management of IBPCG, we concluded that Alpha is translated from following perceptions:
- To diversity the products to meet the clients’ need for highly customized solutions
- Service upgrade, encourage FA teams to bring the solutions proactively
- Standardize the service delivery process to update all the information to client periodically
- Highly focus on the HNWI by migrating other clients to other service channels.
  Structuring the interactive time and daily activities to meet the commitment.

Here we can see Program could not provide all the solutions to meet customer’s needs. It can only satisfy or partially satisfy the first four needs of customers. It doesn’t help for the satisfaction of the need of “Implementing advanced account aggregation initiatives”.

From the following analysis we can see, for the first four needs Alpha may not be able to close all the “Gaps” to satisfy clients’ need. To ultimately close the gap between “service expected” and “service perceived”, IBPCG needs to take more efforts to close the gaps that Alpha cannot further narrow them down.

7.2.2 Gap 2: Management’s Perceptions vs. Service Quality specifications

FAs’ relationship with the firm is more independent comparing to other service industries. The firm provides the brand name and the facilities to FA to market themselves by their own way. FAs’ income will be decided based on how much revenue they can bring back to the firm, or it could be interpreted as FAs have to take their own risk to run the business in more like entrepreneur style. The specific characteristic of FAs’ relationship with the firm causes the difficulty to completely translate the executives’ understanding of customers’ expectations into service-quality specifications.

For an organization with a large sales force of FAs across the US within 25 district31, the culture specificity (See 71) increases the difficulty to translate the management’s perceptions. Program Alpha is aiming to design the standardized service delivery model, which can well translate the management’s perception into service specifications. As discussed at the beginning of 7.2.1, Program Alpha translated client’s perceptions of needs regarding:

“Need highly customized solutions”,
“Solutions brought to them without asking for it”,

31 Numbers are adjusted and do not reflect the true situation of the case study for confidentiality purposes
"Kept fully informed" and
"Want more and more dedicated attention"
into certain standardized service-quality specifications, such as "12-4-2", "folder
system", outsourcing and empowerment to CA.

7.2.3 Gap 3: Service quality specifications vs. service delivery

As indicated by Valerie Zeithaml in her book (Reference 28), high-quality service
performance is not a certainty even when a standardized service specification is well
designed to reflect all the customers' expectations. A number of constraints may likely
cause the service-performance gap. For example, poorly professional skills of FAs,
inadequate internal systems, insufficient capacity. From our interview with FAs, we
found one of the common problems in different locations is the uneasy use and lack of
flexibility of the IT applications. For the specific characteristics of the business
processing process, we think it is necessary to bring an additional gap into the analysis,
the gap between the IP application design and the requirement of final users. This gap
will enlarge the Gap 3.

More important, the standards of service has also to be backed up by adequate and
appropriate resources and must be enforced to be effective – that is employees must be
measured and compensated on the basis of performance along those standards. During
the process of working on this project, we found IBPCG's internal performance metrics is
still keeping the same as before. As we indicated in Chapter 3 and Chapter 4, by using
those existing data of the metrics, it is hard to measure if the Program Alpha successful or
not as certain expected results from Alpha were not reflected in the metrics. For example,
the structuring interaction with clients is one of the critical elements of Alpha, but no
system could record or measure how FAs arranging their meeting schedule with clients.
On the other hand, the Program Alpha is serving to the new strategy, for which one of the
important concept changes is the withdraw from "more assets is better", but FAs'
personal income is still highly tight to the assets managed by them. Because FAs'
income is certain percentage of the firm revenue, which is calculated based on the total
assets under fee-base model. In fact, from our literature review we found there is a trend
to transfer from fee-base to performance-base in private client service industry.
As indicated previously here we only illustrate certain existing gaps which cannot be
closed by Alpha or affect the effectiveness of the implementation of Alpha, but we are
not intending to provide the solutions in this project. To close down the Gap 3, IBPCG
needs to consider the relevant IT strategy, improvement of IT management practice, and
professional training to FA to improve their quality. IBPCG also needs to consider the
update of its metrics to develop the balancing score card which can well reflect the firm’s
new strategy. Research and investigation about the potentials adoption of performance-
basis fee model should also be considered.

7.2.4 Gap 4: Implications on improving service quality

IBPCG brand name, its leading position, the advertisement of its new strategy, the
new service commitment, all of these aimed to improve clients’ satisfaction to the firm
may at the same time increase clients’ expectation. Clients may have double standards to
the service firms, i.e. they may demand higher quality service from IBPCG than from
other second tiers firms.

To provide the first class service is critical to the success. At the same time to well
communicate with clients to make them realize they are served with first class standard is
also important. From the clients’ survey, Program Alpha is not well known among the
clients. As described as the service model in Chapter 5, the whole service process
includes service management back office process and the interface. Most time clients can
only realize the service interacted with them but not the part not directly interfaced with
them although that part is the major part of the whole service process. To communicate
with clients to have them realized the unseen value of whole service delivery process can
also narrow down the final gap. Morgan Stanley has ever had a successful experience in
this regard. Morgan Stanley always claims its leading position in technology in the
industry. When several years ago it upgraded its IT system so that it execution speed was
faster 0.5 second than other competitors. The 0.5-second was hard to be realized by
clients. Morgan Stanley chose not just offering this unrealizable advantage to its clients,
instead they emphasis that half second advantage publicly which won many clients for
them.

To narrow down the Gap 4, here we think further analysis has to be made to know
what advantage of Alpha clients have realized and what has not, then the relevant PR strategy has to be designed.

7.2.5 Gap 5: Expected vs. perceived services

Measuring Gap 5 on the client side seems to reveal the following. Ultra HNWI are confident about the firm investment strategy and service delivery. They seldom describe their expectations while filling the annual assessment of the service. HNWI, in contrast, verbalize more their expectations and have higher needs. This group of investors benchmark the services provided in other industries to HNWI and would like them offered in the financial services. Meeting this group’s expectations is very challenging to the service as they keep learning and pushing the envelop of services provided bigger. Project Alpha does not address directly the dynamic nature of client expectations and in particular HNWI. It attempts to make the FA and CA aware of the changing expectations through the notes in the folder system that is updated on a yearly or quarterly basis. The folder system has an unintended consequence that forced the FAs to keep track of client-changing needs. However, project Alpha does not offer the tools to the FAs and CAs to respond to changing “needs” and “wants” nor it gives them the training on how to innovate service, as a response to new client needs. As a result project Alpha can either be empowered to allow FAs to adjust service delivery or complemented with another program.

7.2.6 Gap 6: Introducing new IT applications to improve service delivery

Gap 6 is not a traditional gap in the service industry. It occurs when a firm introduces a new IT application in the assumption that it will improve productivity, increase efficiency, develop higher satisfaction standards, and finally expect the user to have the skill set to use and deliver service through it. In this case, the introduction of the application was highly regarded by certain districts and criticized by others. Difference in geographic locations and boundaries makes implementation heterogeneous.
7.2.7 Gap 7: Rolling out service innovations

Gap 7 in this particular case relates to introducing an innovation to the delivery system. When sending communication about the services offered by the firm, the new program has to become an integral part of the organization strategy. Clients should read the innovative service through different channels and feel proud to be served by the few. When introducing an innovation to the market, large gaps are created between program designers’ perceptions of what clients want and what the client expect from a new program. In this case, there is great uncertainty about the strength of the program on the long term.

Figure 25 Managing multiple party expectation

To make along story short, Alpha needs to be complemented because it is not a stand-
alone tool to improve service delivery and meet ever-changing client expectations, particularly when roll outs take such a long time to materialize. For that end, the use of system dynamics to account for the potential obstacles and feedback from the system when designing a new service can help to a great extent bridge those gaps and have a product that will most likely be rolled out in a shorter period of time with less glitches.

Finally, bridging all these gaps would allow IBPCG to reposition itself in the market and manage multi party expectations, namely the firm, the FA and the clients. Below is a 3D matrix mapping the firm competitive advantages, the FA skill set, and the clients core needs. The ultimate space to be occupied by the three parties would join the personal CFO with Aggregate Account Provision and Alpha total wealth management. If this space is reached, there is high potential for IBPCG to regain the contender position.
Chapter 8 Conclusion

The research team was initially requested to assess the quantitative and qualitative aspects of the program, recommend on its validity to the firm's national operations, effectiveness in improving quality service, and retain clients. It was obvious that limited statistical analysis will not fulfill the requirements to address the issues stated here above. As a result, we had to redesign the research strategy and introduce a 360° state of the system analysis.

The new 360° analysis is composed of six milestones. First: revisiting the market conditions and identify the threats facing firms operating in this industry. Second: identifying the firm strategic intent through the lenses of the FAs, CAs and the clients not from those of the management. Third: review the qualitative and quantitative results of the survey and benchmark the findings against market threats and firm strategic intent. Fourth: review the firm operation system and define the role Alpha plays in improving effectiveness and delivery modes. Fifth: analyze project Alpha using system design models to understand the relationships between organizational, behavioral and operational hurdles and drivers to enhance the firm understanding of the fundamental dynamics behind project alpha roll out. Sixth: use a gap model to analyze the firm ability to balance customer perceptions and expectations.

The state of the system analysis allowed us to realize that the company is trying to implement a 3rd generation strategy to a 2nd generation service model run by 1st generation FAs (service managers). Any chance for the program to succeed requires an alignment between the strategy, the organization and the FAs. Program Alpha cannot achieve such a goal merely because it was not designed to do so. However, it definitely up brings the company way of doing business to comparable standards offered in the service industry today. Further, Alpha needs to be complemented with programs to allow the company to achieve its strategic goals and close the created gaps. The remainder of this chapter will pinpoint operating directions towards achieving the company's strategy intent but detailing these, directions go beyond the scope of this research.

Overall, the research proves the service industry is undergoing the same challenges
across several industries. The analyses didn’t produce anything unusual. The literature reveals that when introducing change, the problems that emerge and the symptoms that follow to the introduction of changes are the same. As such, research results have been predictable since much of the issues are related to administrative heritage (way of doing business) and strategic capabilities of a firm that are built up over time and cannot easily be changed or undone.

In this particular research, the program shows encouraging results at the pilot stage. Unfortunately, not all positive results can be credited to the program; it has been very difficult to relate the program strengths in isolation of the current soft market conditions. The main strength of the program is the offering of standardized, reliable and automated service to a heterogeneous FA community. Contrastingly, even these strengths are considered as basic requirements in any service industry today. Success in going forward and rolling out the program on a nationwide basis depends on a number of details, which will be explained here below.

The 360° analyses suggest the following recommendations to IBPCG categorized into strategic and operational levels.

Strategic

First, findings point towards the necessity to roll out Alpha throughout the US. Before doing so, IBPCG should create a National Implementation Team (NIT) of pro-active and entrepreneurial FAs and CAs to create a knowledge base team able to reflect the company’s wide experience in innovations and dealing with customers. The first mission of the NIT is to fix the glitches in the system based on the findings of this research. Second, NIT should plan the national roll out. This select group of FAs and CAs will be the evangelists of program Alpha throughout implementation. It is extremely important to keep monitoring the roll out for continued performance and/or deviations. IBPCG should also exercise enough caution to ensure that success stories keep building up.

Second, it is clear that Program Alpha will change the way services are delivered in this industry. However, the performance metrics to measure success within the firm have not been changed yet. We believe that in order to succeed in rolling out Alpha, IBPCG should update its internal performance metrics so that the effectiveness of Program Alpha
could be well assessed. We also believe that the incentive system should be reviewed to stimulate and facilitate the changes in the service delivery.

Third, IBPCG should consider transforming the migration process from imposed to self-selected. Although we don’t have sufficient data, we believe that being “dumped” by an FA (to ICC) is not a loyalty-building interaction. The delivery model still makes ICC customers profitable. It would be better if these clients self-selected themselves to ICC or are given a transition period.

Fourth, IBPCG should continue the development of IT support tools. The improvement of IT support tools should address the concerns raised by FAs and CAs about support systems, such as:

➢ No standardized client relationship management IT paradigm
➢ Lack of integration between legacy system, client relationship management tools, scheduling tools and contact tools (email, telephone)
➢ No explicit CA access-level built into scheduling or client relationship management tools (CA usually logs onto FA’s system directly)
➢ No automated client information storage tool (FAs/CAs need to manually create and produce a paper-based folder system)

In addition, IBPCG should perhaps evaluate solutions developed by individual FAs and leverage their experience.

It is crucial to continue the development of the IT infrastructure. In IBPCG, business ability to acquire, structure, and analyze information is strategic and should be treated as such. It is important to unify, standardize, and strengthen the process of collecting and sharing market and operation data (FAs, clients, CAs), so that relevant information is accurate, current, and accessible throughout the organization.

Finally, we believe that IBPCG should set 1st class client and FAs satisfaction goals and monitor them. It should analyze service further (both theoretical and actual delivery) to make sure satisfaction numbers are 1st of class as opposed to simply “good”.

Operational

First, NIT should further develop Alpha training at district and branch levels. We believe training materials and methodology should be recycled to further incorporate FA
experiences with Alpha to date. It is also crucial to increase the level of operational specificity during training sessions, including operational details on FA/CA interaction level and distribution of responsibilities between them (CA as filter/organizer/enforcer). Moreover, NIT should construct a training schedule that includes refresher courses covering “advanced implementation/client management topics”, provide on-demand training, and create CA-specific training materials and sessions.

Second, we believe that management support is crucial. Therefore, district and branch managers should own accountability for a set of Alpha implementation milestones. Management should also proactively underline successful Alpha implementation activities by FAs and CAs – key is to stimulate through demonstration of results, and not through sheer pressure. We also believe that IBPCG management should analyze possible effectiveness of a reward program for successful Alpha implementers.

Third, as mentioned in chapter 6, Alpha “on-site” support is extremely important to the implementation of Alpha. It is important to have Alpha-aware IT staff at branch and district levels as well as on-site CA support (administrative/process) doing Alpha implementation.

Finally, we think that IBPCG could consider whether Alpha terminology chosen invokes the right image and fosters the desired enthusiasm. Even internal products or initiatives need to be sold. Treat its attributes with the same level of thinking devoted to promoting market products.
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