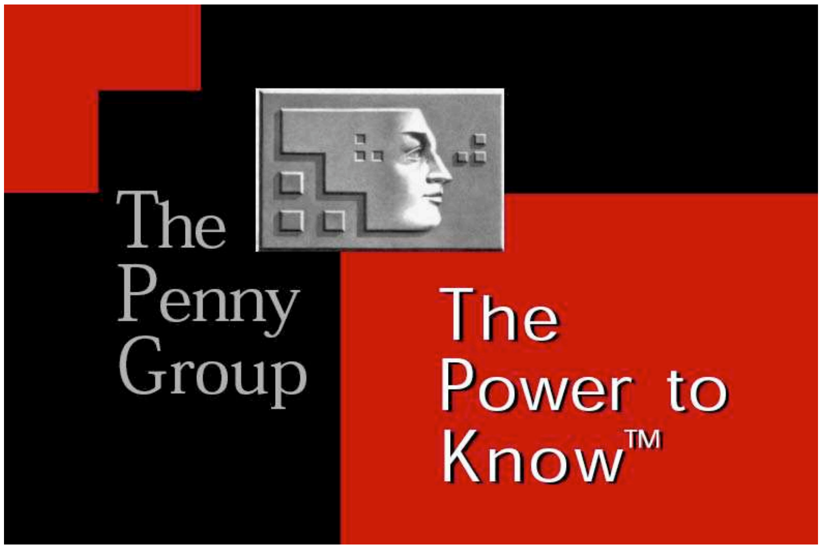
Creating Loyalty in a Trust Market:
The 75/25 Dilemma



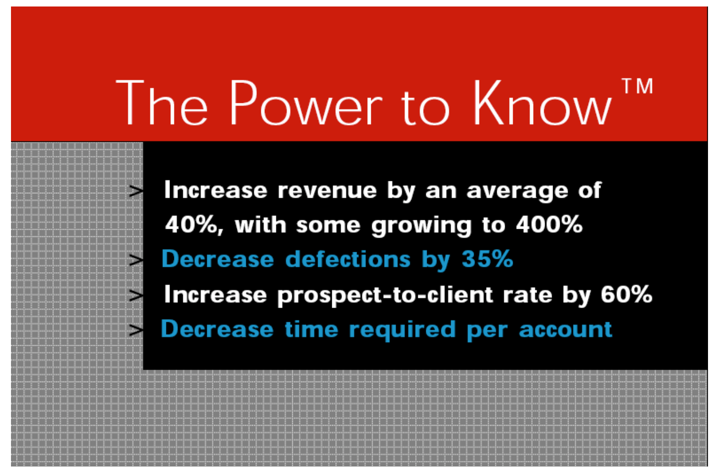
A speech delivered to
Northwest Trust Conference
By Dr. Bob Penny
President, The Penny Group, Inc.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

Let me tell you why I am standing here today. A trust officer in this audience found out last year that one of the wealthiest individuals in the Seattle area -- his client -- was about to leave. That client is still with that officer today, but only because the officer addressed an issue that surfaced through our process.

What was the issue? It wasn't pricing, it wasn't investment return, and it wasn't a product issue. It was the perception, despite all odds, that the trust officer didn't really care about this account. How did that perception happen? I'll tell you in a few minutes what the officer learned.

That officer was not alone. Last year several members of this audience -- your peers -- dramatically changed their sales results using The Penny Group's process. Our process enabled them to:



- increase their per account revenue by an average of 40%, with some accounts growing by as much as 400%;
- decrease account defections by more than 35% within 12 months;
- triple their rate of converting prospects into clients;
- accomplish all of these while actually decreasing the amount of time spent on many of their most important accounts.

My purpose this afternoon is to tell you how we accomplished that, and why such dramatic results are possible.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

Several months ago the committee assembling this conference contacted me. The committee asked if I would share some of the answers that The Penny Group, as specialists in client retention and business expansion, had uncovered about loyalty in the trust business.

They asked if I could answer, for example:

1) How many times a year do you need to meet with a client to be perceived as both proactive and adding value?

2) What rate of return does an investment client need to see in order to create client loyalty?

3) If you obtain a top investment return, how long do you have before the client begins to look around?

Because those were questions that the committee said most attendees would be interested in, let me begin then by answering those three issues.

- First, with regard to client contact ...our research shows that the average client expects at least four proactive client contacts a year from their trust professional. Proactive means that the trust professional initiates the call. Contacts that you initiate in response to a client's question do not count toward that total.

- Second, with regard to investment return ...our research shows that few clients will complain if you deliver a return rate in the top quartile of investments with the same objective.

- Third, with regard to the down side of returns ... if your return is more than 50% below the average return among similar investments for two consecutive years, you can expect that many clients will at least begin exploring other alternatives.

Having now provided you with those answers, I must also tell you that you can meet or exceed all of those averages with every client in your portfolio, and 75% of your clients may walk away from you. This is the 75 / 25 dilemma of my title.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

Our research shows that most trust professionals dramatically overestimate the loyalty their accounts, and they do so by a vast amount. The overestimate is so extreme that it involves the majority of every trust professional's accounts. The fact is this:

- At least 75% of the clients whom service providers identify as both loyal and safe would consider leaving, and if they do so, most will do so without an honest explanation.

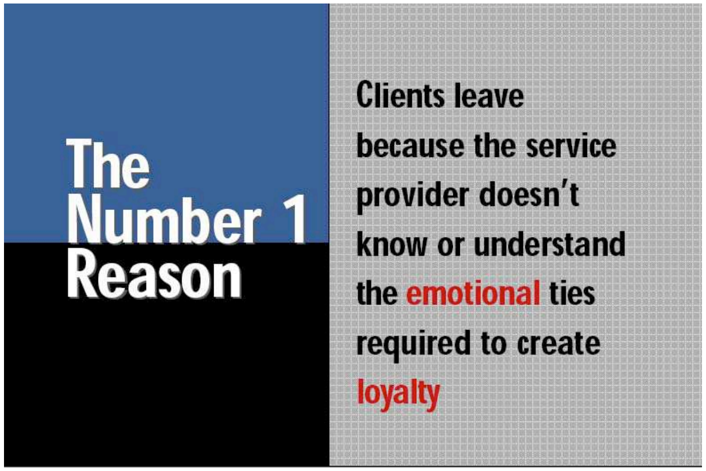
- Fewer than 25% of the clients whom service providers describe as very satisfied actually perceive themselves in the same way.

How can that be? How can that be that you can do the things I described and still have 75% of your clients with their hand on the doorknob?

The #1 reason that clients leave is because their service provider does not understand the emotional ties that ultimately create loyalty on an individual basis.

Let me say that again.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.



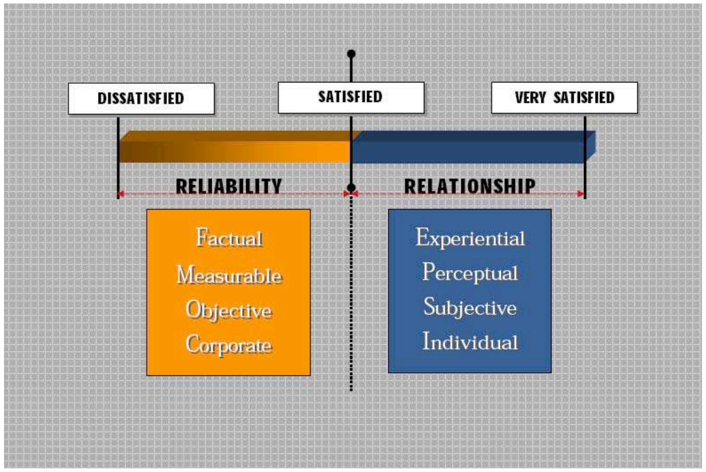
The #1 reason that clients will leave is because their service provider does not understand the emotional ties that ultimately create loyalty on an individual basis. Understanding emotional ties means that loyalty is not a matter of producing 10% instead of 4% investment return. Nor is it about the difference between 28% instead of 10% return. Understanding emotional ties means understanding how a client makes his or her decisions, understanding what matters to a client and why, and what particular actions will move you from becoming simply another provider to being a trusted advisor.

There is one -- and only one -- way to build or to strengthen the emotional tie that will enable you to keep a client in the face of a down market, in the face of intense competition, and even in the face of a terrific market where every provider has great returns. You must turn each individual contact into a very satisfied client.

I was invited here today because my company, THE PENNY GROUP, developed, patented, and has implemented with organizations across the country a methodology by which you can take any client and move him or her to very satisfied. The methodology enables trust professionals and others not only to stop unexplained client loss, but also to deepen and expand business among current clients, and to actually reduce the amount of time it takes to manage a book of trust business.

To understand how this is possible, I first need to introduce and explain the continuum we have developed illustrating the dramatic difference between a satisfied client and a very satisfied client.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.



The left side of this continuum defines what it takes to create a client who perceives himself or herself as "satisfied." I have no doubt that everyone here knows how to create a satisfied client. If you did not, you would not be at this conference, you'd be in remedial training. Everyone here knows that to get a client to describe himself or herself as satisfied, you must deliver reliability -- defined as a quality product, delivered at a competitive price, and backed up with consistent service.

The organization you work for probably has as much to do with this reliability side of the equation as you, the service provider, does. In fact, most reliability issues can safely be considered commodity issues. These are the characteristics or qualifications it takes to compete in business. They are simply the price of admission.

Reliability can be measured, it is objective, it is factual. BUT IT NEVER CREATES LOYALTY. The only way to create a loyal client is to ensure that the client perceives himself or herself as VERY SATISFIED.

Very satisfied is always defined individually. The right side of the continuum is not an organizational issue; it is a service provider issue. No one can create a very satisfied client by offering the lowest price or by offering the latest technology. You can make such distinctions, but they put you ahead only until some other provider tops you, and in today's hyper-competitive world, such distinctions shift in a matter of weeks, days, or even hours. The right side of the continuum is about client experience, but it is not factual or objective. The right portion of the continuum is perceptual. It can be measured, but it exists in the mind of the client. This means that regardless of how well you perform the basics, including your investment return, for example, there is no guaranteed correlation between your action and a client's perception.

Let me say that again. Regardless of how well you perform the basics, there is no guaranteed correlation between your actions and a client's perception. Only the client can define whether he or she is very satisfied. This means that traditional survey methods that rely upon group

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

averages to define what it takes to create loyalty -- like the group averages that I gave you at the beginning of this presentation -- will never enable you to predict -- or to have an effect upon -- the loyalty of an individual client.

Moving a client from satisfied to very satisfied will always have a dramatic effect on your business. Research published in the Harvard Business Review has demonstrated that when a client has an additional need (in any business setting), the distinction between satisfied and very satisfied is the only predictor of whether the client will return to the current provider or whether the client will give the nod to a new provider.

The "very satisfied" client will return to the service provider 85 times out of a 100 without considering other resources

The "satisfied" client will return to the service provider only 17 times out of a 100 without considering other resources

The Harvard data shows that clients who perceive themselves to be very satisfied will return to their current provider more than 85 times out of 100, without seriously looking at a possible alternative. Let me repeat that; 85 times out of 100. But among clients who describe themselves as simply "satisfied," fewer than 17 out of 100 will look at only one alternative. And why should they? If the client is only satisfied, by definition he or she is tied only by reliability, and reliability alone is a commodity today. Achieving a very satisfied client is the true key to profitability for two reasons. First, profitability always increases with tenure, so a book of business populated with long-term, very satisfied clients is simply more profitable. Second, very satisfied clients simply demand fewer concessions than clients who are constantly shopping their relationship.

Once again, no other factor -- not price, not investment return, not consistency -- is as predictive of loyalty as the client-defined distinction between satisfied and very satisfied. Consider this satisfied / very satisfied distinction in light of the providers you buy from. Most of us use hundreds of suppliers who provide us with adequate service, sell at competitive prices, and actually make few mistakes. Think of your grocery store, your pharmacy, your gas station, the movie theatre you visit from time to time, your office supply store, the stand where you buy

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

your coffee in the morning. The choices you make for these commodities are based mostly on convenience, price, selection, location, or some other reliability factors. There is little to complain about in their service. But there is also little that is compelling enough to create loyalty. Then again, perhaps for you one or more of these suppliers has moved beyond the commodity level. Perhaps you have a service station or a coffee vendor or a pharmacy you wouldn't consider leaving. At some point, price and convenience become less significant, because a relationship component begins to emerge. The provider understands you well enough to create a bond. Some individual has taken the effort to go beyond the minimum level of service, and in doing so he or she has become memorable.

Most service providers fail to realize two lessons in this phenomenon. The first is that you can create a very satisfied level of commitment around literally any commodity ... commodity. In our research, we have had buyers cite examples not only of doctors or accountants who have create very satisfied clients, but grocers, insurance salesmen, car dealers, and even dog food salesmen. In every case, the buyer is able to define exactly what the provider did that went above and beyond the client's expectations.

Take a moment and think of one service provider with whom are very satisfied, a supplier who understands what you are looking for and why, a supplier you would always choose, even if doing so costs a little more or is a little less convenient. Most of us encounter so few providers of this sort that they become memorable, they stand out, and they earn our loyalty. Do you have one? If one doesn't come to mind immediately, think about it later, or on your way home tonight.

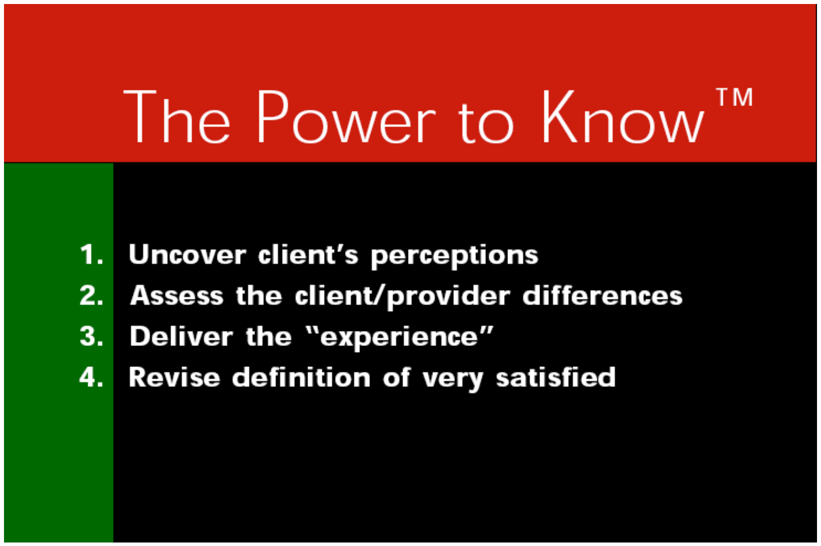
The second lesson from this phenomenon is more disturbing for those in this room. No service or product automatically generates a very satisfied client. The fact that a client entrusts you with several million dollars of assets does not mean that the client is loyal. Loyalty is at least as hard to create in the trust business as it is in the insurance business, the new car business or the hardware business. And the unfortunate truth is that clients are no more likely to be very satisfied with their trust advisor than they are with their hairdresser or their pharmacist. And a client who is only satisfied is always a shopper.

What does The Penny Group do that enables you to move a client from satisfied to very satisfied? Our process enables you not only to obtain each client's perceptions about you, the service provider, but also to understand how those perceptions came to be formed. Understanding not only the client's perceptions but also the client's reasoning is the key to eliminating the barriers to more business, and to identifying each client's buying triggers. Extraordinarily talented sales people are somehow able to do this instinctively, uncovering with a sort of built-in radar what will most excite or turn off a client. For the rest of us, a proven process or tool can take us there.

Our process accomplishes this in four steps.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

In Step One service providers learn how each client perceives the service relationship, and what factors and experiences contributed to that perception. In this step, the client literally maps out his or her view of the relationship, in simple, explicit, and sometimes startling terms. The client defines which elements he or she is most positive about in the relationship, which elements the service provider most needs to pay more attention to, and which elements are most important in moving that client to a very satisfied position. The map distinguishes which elements, for that client, are reliability features, and which elements are the experiential factors most likely to contribute to loyalty.



Step Two is for the service provider to evaluate the relationship based on the same criteria that the client used, without the benefit -- yet -- of the client's perceptions. This step uncovers the difference between what you, the service provider think you're delivering, and what the client perceives that he or she is receiving. This distinction -- what you as a service provider think you're delivering, compared with what the client perceives he or she is receiving -- can often be startling. Let me give you three recent examples:

- The first example concerns a busy physician for whom the private banker was constantly handling details. Thinking that this account would be her baseline for describing "very satisfied" service, the banker solicited feedback using our process. She was shocked to learn that the physician perceived the officer as so flawed on follow-through that he was ready to close his account. Why? Several months earlier the physician had requested a simple Visa card for his daughter. She was now ready to leave for college, and no card had been received. The years of good service were suddenly forgotten, and the physician indicated that with one more mistake he would be ready to move his H$10MM account. If the banker couldn't handle such a simple, low-dollar request, how could she be trusted to follow through for his daughter in the event of a major emergency?

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

- The second example comes from a CEO whom the officer thought was only marginally satisfied, since most of their conversations occurred only when the CEO had a complaint. The banker involved was shocked to learn that the CEO's perceptions were actually extremely positive. In their follow-up meeting, the CEO described how this banker was the only one of his many financial advisors who would actually listen and respond to concerns, instead of simply providing excuses or saying, "I'm sorry but we can't do that for you." The CEO literally stated, "It's crazy that I maintain relationships with three other institutions I don't respect. By the end of their follow-up meeting, the CEO had agreed to move more than $40 million dollars in assets, a 400% business increase in the relationship.

- The third example is the one I began with, the extremely high net worth Seattle client whose frustration came to light last year. As I said earlier, the client had decided to leave because he believed -- much to the shock of his trust officer -- that his relationship was not valued. How had be come to that conclusion? A number of senior executives in the larger organization had been displaced, some of whom had called on the wealthy client personally. The trust officer believed that his job was to protect his clients from such internal issues by showing that they had no effect upon day-to-day business. But the client interpreted this lack of communication as clear evidence that he had become just another client. Only because the officer uncovered this perception in time is the account still his today.

Step Three is delivering the experience the client wants, closing the gap between what you think you're providing and what the client experiences. Our experience with service providers across all kinds of industries with all kinds of products, serving all kinds of clients, shows that delivering to a client the elements that he or she define as most important is almost always much less difficult than the service provider expects it to be. In addition, this is where time savings emerge, since the service provider is able to focus on those exact issues that matter most to the client, eliminating extraneous, time-consuming details to which the client attaches little value.

Step four is formulating -- again *with* your client -- a revised definition of what factors and experiences will best serve the client. In this way, The Penny Group helps the service provider begin an ongoing process of relationship definition, relationship evaluation, service delivery, and relationship redefinition that is to key to client loyalty.

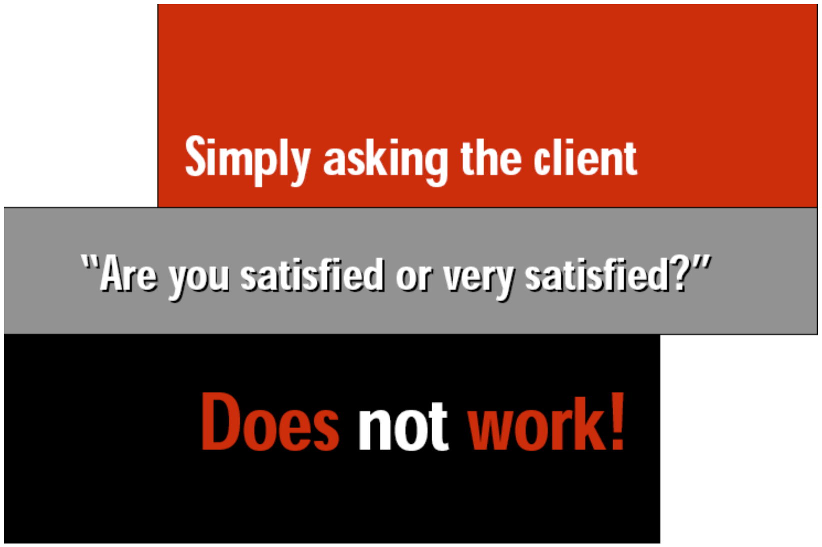
- In Dallas, for example, a trust officer used the process with a young architect who had inherited a huge fortune from her parents. One ongoing expectation the architect had defined was a desire to learn more about the stock market. For years the trust officer satisfied the request by simply reviewing and explaining the client's account statements and transactions. Only through The Penny Group's process did the trust officer uncover that the client had recently become concerned about a number of complex tax planning issues, issues the architect thought the trust officer should have brought to her attention. Once the issues surfaced, the resulting change was easy. But if those themes had never come to light, the $65 MM account might have been lost.

I have no doubt that many of you are probably now thinking, "Defining client objectives is something I already do with every client. If this is an investment client, for example, we talk about risk tolerance, about the difference between account income and account growth, about the difference between growth and value investment strategies.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

These questions and others like it are certainly important, and I would want to convey that you should not ask them. But these questions focus on the reliability side of the continuum [left side of the slide], and reliability alone will NEVER guarantee loyalty. Nor will traditional customer satisfaction surveys -- whereby management collects evaluative data by assessing clients' perceptions about products, prices, and service -- deliver to you the information you need to create a very satisfied client.

So why can't you just ask the client, "Are you satisfied or are you very satisfied?" and go from there? Why am I devoting all this time to something which should be as simple as asking a question and responding to it?



There are two reasons. The first is that clients cannot or will not tell you the truth. The second is that even if the client were to answer that question honestly and directly, most trust professionals are not prepared to hear the answer. Before you tell me, "Not me, and not my clients!", let me explain both.

Why would a client be unable or unwilling to tell you his or her definition of very satisfied? The first reason is that in many cases clients truly don't know what "very satisfied" means to them. So rather than appear inexperienced or foolish, they simply cite some reliability issue -- investment return, for example -- as their bottom line. It is true that for some clients, satisfaction is simply a number. But those clients are far fewer than most service providers would have you believe. For most people, becoming "very satisfied" involves other issues.

- Many of you may relate to the experience of one trust officer in Chicago, who learned through our process that an elderly couple was about to move their $5MM retirement account at the urging of their children, whose own investments had fared far better over several years. What the retired couple most wanted at that point was the security of

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

knowing that they had chosen the right investment plan, despite what the children were telling them. The trust officer fault, but not for his investment council. He was at fault for his lack of communication.

Why would a client be unwilling to tell you the truth, particularly if the client both needs and wants your service, or if you are managing a significant portion of that individual's wealth, for example? Our research has demonstrated that in many cases, the idea of providing negative feedback to a wealth provider whom they probably like personally is so uncomfortable that clients will go to almost any length to avoid it -- even the extreme of moving their account. This is particularly true for banking and investment clients, where the risk of negative feedback can be justified by the fear that the officer will then ignore their account, or service will decline even further.

While you may reply, "My customers have no trouble complaining!," most client complaints are positioned as reliability issues, where the client can offer factual evidence that the product or service has fallen below some minimally acceptable level. Very rarely will a client volunteer feedback about the distinction between satisfied and very satisfied. To use a common example from outside the trust world, most of us will send back a restaurant entree that is delivered cold when it is supposed to be hot. But how many times have you experienced a restaurant meal that is acceptable, but definitely less than superb. Yet when the waiter asks, "How was your meal?" or worse, "Was everything okay?" most people answer, "Fine," choosing not to elaborate. Why? Most of us have learned that such questions are not really a request for feedback, they were a request for confirmation. So you tell the waiter, "Fine." You tell everyone *else* that you probably won't go back.

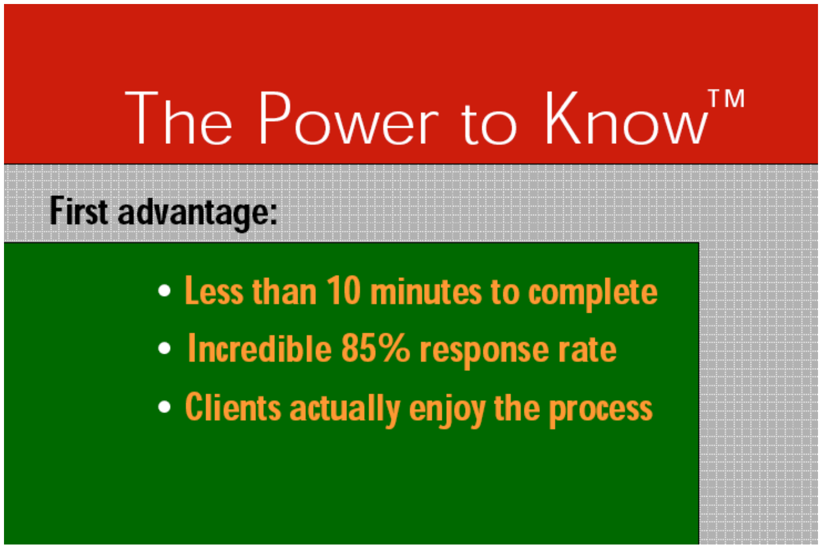
The second reason you can't simply ask a client whether he or she is satisfied or very satisfied is not client-based, but is based on you, the service provider. Our research shows when a client offers feedback, a service provider will almost always look at the left side of our continuum, the reliability side, regardless of the comment. For most service providers, the logical response to a client's statement, "I'm not getting what I need" is first, "What do you want?" followed then by "I'm not sure we can do that." In most cases service providers assume, usually incorrectly, that the underlying reason a client is less than very satisfied MUST be price, product, or some backroom service issue. Few trust professionals, for example, seriously consider that their own relationship with the client may be the real source of frustration. And in fairness, apart from our process, most providers will never hear a client's true perceptions, much less in a format whereby they can understand and respond to them.

Last year, for example, The Penny Group began working with officers in a large bank that had just completed a huge merger. Throughout the franchise clients were plagued by operational issues of every sort, and many salespeople urged management to wait a year before implementing our process. Officers argued that clients had already made their frustrations known and stirring the pot would only add to those frustrations. Officers learned, however, that the larger frustration was a relationship issue: most clients felt a total lack of communication since the day the merger was announced. While clients certainly were frustrated by reliability problems, the deeper concern was the lack of any emotional connection at a time of change. Officers could do little to accelerate the merger process. They could, however, definitely control their own client communication.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

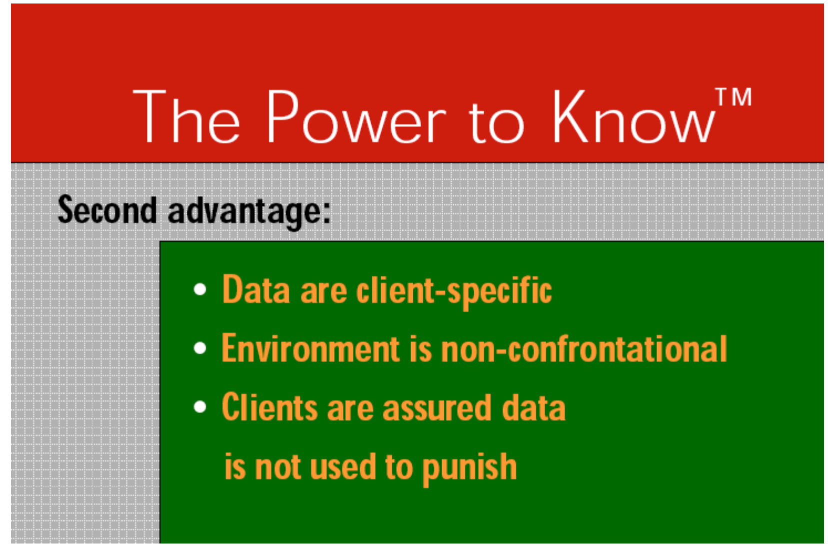
To go back to my title, service providers misdiagnose the loyalty of most of their clients -- 75% in fact -- because they assume that reliability issues are at the heart of most clients' decisions. They erroneously believe that a client with no reliability problems must be "very satisfied." But that is simply not true.

How do we overcome the two issues of client reluctance and service provider myopia? Our process has four advantages that eliminate both those issues.



First, the process makes it extraordinarily simple for the client to respond, or more specifically, to complain. In our process a client spends less than 10 minutes to completely outline both priorities and perceptions with regard to those priorities. By applying to client perceptions a rarely used forced-distribution technique, we make it safe for clients to reveal their true perceptions, including perceptions about relationship issues. Clients are willing not only to complete this exercise, but they like doing so. Traditional client satisfaction surveys have an average a response rate of less than 15%. Our response rate consistently exceeds 85%.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.



Second, the data we obtain are client-specific. Proponents of traditional survey methodology have convinced most people that the only way to get candid customer feedback is to provide client anonymity. But this argument is completely in error. Clients are quite willing to divulge their perceptions, as long as they are assured that they won't be forced to defend those perceptions in a confrontational setting. Clients also want to be assured that their perceptions will not be used to punish or even fire a person whose performance may not be perfect -- but is least correctable.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

The Power to Know™

Third advantage:

Individual service providers receive:

- client specific diagnostic
- across client trend analysis

Managers receive:

- market/organizational data

Third, the feedback data we obtain belong to the service provider, not to management. This means that a service provider is able to get open and honest feedback from any client, without fear of punishment, including clients whom they think will define the relationship as weak or ineffective. Such clients are exactly the ones from whom feedback is most helpful and most instructive, yet they are typically the accounts a service provider would be most reluctant to survey. Service providers receive in our process not only a detailed, individual-specific diagnostic of each client's expectations, hot buttons, and growth opportunities; they also receive their own individual trend analysis. This summary is formulated exclusively from that individual's own client base. These analyses enable the service provider to diagnose his or her strengths, key vulnerabilities, and issues that clients indicate will have the greatest business impact if addressed.

Managers do not have access to individual client feedback, but they do have access to market data across clients. Managers gain clear, actionable data that pinpoints exactly what organizational initiatives will have the greatest impact for all clients, what issues are most on the minds of the clients in a particular market, and what actions they, as managers, can take that will have the greatest impact on client loyalty.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

The Power to Know™

Fourth advantage:

- Face-to-face, two-way communication deepens the client/provider relationship

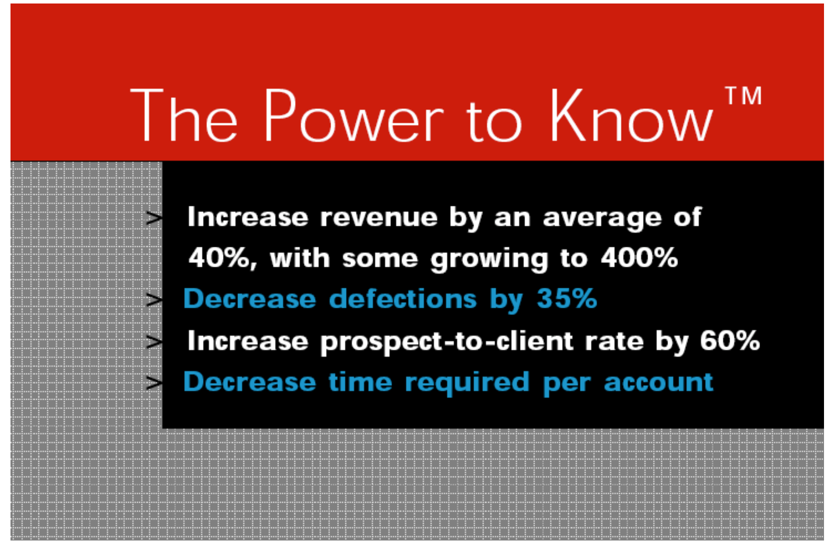
Fourth, and finally, our process yields a face-to-face dialogue between the client and service provider in an environment that permits candor and honesty. It is this interaction that is the real heart of our process, and this meeting is what distinguishes our process from any other. The service providers leave both prepared for and excited about their follow up meetings. Service providers report that these meetings are the most honest, the most direct, and the most insightful interactions they have ever had with a client. Clients describe these meetings as both flattering, since the service provider has not only asked for their feedback, but is actually following up on it, and eye-opening, since the dialogue is both honest and open in both directions between the client and the service provider.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

In summary, The Penny Group's patented, proven process is able to uncover the unexpressed issues and hidden frustrations that prevent clients from moving from satisfied to very satisfied. Service providers often fear that uncovering such issues will expose them to unfair criticisms or unrealistic expectations. In reality, we have proven that unrealistic expectations already exist in many relationships. Exposing them does not create or exacerbate them; it simply brings them to light. When the client and service provider are able to discuss these issues rationally candidly in a safe, non-threatening setting, the relationship improves dramatically.

In one situation, for example, a trust officer received feedback through our process from a lower tier client who complained that the officer did not contact him often enough. Because the officer had requested this feedback and was responding to it, the officer was able to explain openly that larger accounts simply got more attention. The story ends positively, however, in that the officer could agree to a reasonable contact schedule that clearly met the client's communication needs, but did not unfairly burden the officer. As a result, the client's frequent phone calls diminished by almost 80%, while his satisfaction rose dramatically. After six months of experiencing this regular, scheduled and proactive contact from the officer, the client referred three friends, each of whom became clients within six months. In each case, the original client told his wealthier friends, "If they communicate this often with me, think what kind of communication you'd get with your money!"

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.



To close, let me return then to where I began. Last year several members of this audience -- your peers -- dramatically changed their sales results using our process. Our process enabled them to:

- increase their per account revenue by an average of 40%, with some accounts growing by as much as 400%;
- decrease account defections by more than 35% within 12 months;
- increase their rate of converting prospects into clients by 60%;
- and accomplish all of these while actually decreasing the amount of time spent on many of their most important accounts.

Thank you. I will be happy to answer any questions.

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.

The Penny Group

www.thepennygroup.com

© 2011 by The Penny Group, Inc. Charlotte, NC. All rights reserved.