lds financial services case study

Business

With this the competition is also growing as the competitors are becoming more and more aggressive in marketing and selling their products. Now the company is pondering on what should be the strategy in future so that it will come out as a winner.

In order to get a comprehensive picture of the situation, the analysis Is divided Into four sections, Customer, Competitor, Company and Context as follows. Customer: The target customers were primarily those people who had annual income of more than $25000. There were mainly two types of consumers as confident Investor and advisor-dependent.

As far as financial plan was concerned, there was less chance In case of confident investors as these people were more educated and had the capability to manage their own financial needs. The real opportunity lies in targeting the advisor-dependent investor as they don’t have time or interest in self financial management. People generally go for financial plan when they require long term investment for some future benefit like career advancement, approach of retirement, purchase of house, inherited wealth etc.

There Is huge potential of Income from financial plan within next 12 months as per a market survey. Due to lack if proper information and insight people tend to go for financial plan as it provide them best possible option available. But there were confusion among consumers due to the varied use of this term in different context by different companies. They also had perception of financial planner as insurance agent and beliefs that only wealthy people get benefits out of It.

The consumer Insight Is that people were very skeptical about money matter and don’t easily go for a financial plan unless It was referred by trusted friend or associate. Therefore aggressive marketing to clear the confusion ND good service to the existing consumer can generate high quality reference.

Competitor: Merrill Lynch Integrated Resources FCC Crestless IDS H g , Immune market clientele Hall Net-worth clientele High, Middle market clientele High, Middle market clientele Pathfinder: $300 Discount: 55% less on commissions 30% less transactions 80% less on metal transactions 4120-$600/ plan Or $75-$180/ hour Bag. Rice for planning software $ 725 Average fee: $ 360 Agents are employees Independent contractors Independent contractors Independent contractors Focus on financial planning Focus n planning software Focus on planning software Focus on financial planning Strong training program and sales support Little training, hired IDS planners Little marketing or field support The best training program plus heavy marketing Company: IDS is a rapidly growing financial services firm with a growth rate of 30%.

Its strong points are its training programs buttressed by heavy marketing promotion activities for its sales force. Another advantage that IDS has is its success in small towns and where it has made in roads. It is into various product lines and this has led to lack of synergy within the organization.

There is no clear positioning in the mind of the customer as to what IDS stand for. Similarly this lack of synergy and coordination will also affect the sales force performance. Its current dilemma is to grow at the same rate while expanding the market and keeping its costs low.

I nerve are also some Internal generalness Tort ten Marketing UP Reed Saunders AT convincing the management for more resources. To achieve the target of 30% growth in revenues one of the options with Saunders is to expand his Sales force.

This expansion plan might be curbed internally as it goes against the other key objective f reducing cost. Saunders would have to put across this expansion as an investment and not a cost. He should also reiterate the fact that IDS' competitors are doubling their sales force.

Saunders would probably face a challenge to change the complex salary structure of the planners as well. It is critical that this complex structure be simplified and the remuneration benefits be clearly shown (to the sales force) if Saunders has to curb attrition (attrition rates being high the expected growth might not be possible). He might face a hurdle in this regard due to the fact that a complex system would have en put in place to handle all the paper work e.

G. There are 150 different commission schedules but general repulsion to change in the workplace would be a hurdle.

Here, Saunders could emphasize that keeping the sales force is all important especially since: – Big players like Merrill Lynch have also started operating in the middle market and IDS has to consolidate its position there. This is possible only with a trained returnable work force. -If IDS has to target the higher market of high net worth individuals where it has a smaller presence, then retaining trained personnel is all the more important The fact that this investment would help maintain the 30% growth in a difficult competitive environment.

Increase in the marketing programs will be another aspect which the top management might not agree to.

Saunders can try to overcome this challenge by showing the conversion of leads into clients (Exhibit 7) due to the client programs. He should also stress that these programs and the costs associated with it would not be carried always but up until the clients increase, after which they would be loyal due to Id's superior service, and the marketing programs would have served their purpose. Context:

The financial services scene is set at a time when Individual Retirement Accounts were introduced which required individuals to make their own financial planning echelons. I en Tact at TN tans also lea to many pseudo Atlanta planning valor's (solo products alone) meant that any player with the ability to offer sound financial advice along with financial products would gain credibility initially and this would help in the long run also as the market grows. Distribution is also a key factor in this scenario, where reaching the end consumer and making sure that he/she is aware of your service offering is critical.

The fact that the advice offered by various organizations cannot be compared or sometimes differentiated, it is important for players to have a first mover advantage in this growing market.

Market potential: To calculate the market potential for financial services in the context of the case, we started with the figure of 42 million high-potential customers. Also, 16% of these households were existing financial plan users and IDS wanted to concentrate on existing users and accounts so going by this, we would get 6. 72 million as the potential. Of the remaining 84% (35, 280, 000), 7% were likely to get a plan and this number came o 2. 69 million. Add to this the number who had given this serious thought – 6.

7032 million – and we get combined market for ‘ probable’ users of 9. 1728 million. The total market potential would then come to 6. 72+9. 1728 million 5, 892, 800 Next, going by the value that 18% of the high potential market favored a commission- only arrangement and as IDS did not operate in this manner, we discounted this 18% from our target market. So, 82% of 15, 892, 800 I.

E. 13, 032, 096 is the potential market. Sales Force Issue: The first challenge for IDS as mentioned in the case is to increase its sales while decreasing the cost.

The fact that the marketing expenses have been increasing steadily (Exhibit 6) make this proposition all the more a challenge. Another critical issue facing IDS is the high attrition rates between the 2nd and 4th years. This implies two things; first that the through the training period the Planners are satisfied with IDS but immediately after training they shift to other competitors for want of better margins and business.

Secondly, after the 4th year the retention level is high because they see a long term gain over short term benefits.

Staying inline with the objective of increasing growth through the option of accelerating field growth implies that IDS cannot afford to lose any of their trained sales force initially. This is an aspect ID cannot ignore. I en next concern Walt respect to ten Atlanta planners Is ten complicate compensation package which did not result in immediate cash benefits. If IDS really had a better package then its long term benefits should be spelt out clearly to the existing and new planners. In terms of cost the client marketing programs were expensive for IDS and the return for these initiatives taken by IDS also was not commensurate.

PROBLEM DEFINITION Expanding competition, who are doubling their sales force is a problem for IDS. This is accentuated by the fact that IDS is unable to retain their trained sales force initially. OBJECTIVES for IDS Short Term Objective: Increase sales revenue by 30% over the next 3 years while reducing the cost of sales by 5% per year. Also, increase the earnings by 24% over the next 3 years. Long Term Objective: To become the premier financial firm in the world.

OPTIONS AVAILABLE 1 Increase Productivity by a. Increasing No of clients per planner b. Increasing No of accounts per customer 2 Increase the no of IDS financial Planners

EVALUATION CRITERIA The criteria for evaluation based on the objectives set are: The Revenue generated by the different options and the Return on Investment for each would be key aspects to evaluate the options on. The revenue generated would be a direct indication of the growth increase in sales. The second criterion is the Net Income generated by each of the options. This would allow us to see how the expenses or costs are affecting the revenue.

This would show if the money spent is a sound investment or not. This would also show if the costs are Dealing Kept low – one AT ten adjectives.

EVALUATION OF OPTIONS

Before evaluating the criteria these are the projected Revenues and net incomes expected by the IDS management 1986 1987 1988 1989 1990 Revenues 2909946000 3782929800 4917808740 63931 51362 8311096771 Net Income 128643000 159517320 197801477 245273831 304139551 Option Evaluation: 1 . A Number of clients per planner: The number of clients handled by one planner is 208 (1. 4 million/6731 planner) Exhibit 1. Revenue per client can be calculated as $2078.

57 [mum (Total revenue)/l . Mm (Total client)]. The cost incurred to get a new client found out as $120. 36 ($21388000/177693) Exhibit 5 and 6.

In this case the turn on investment on $1 $17.

26 ($2078. 57/$120. 36). Now an additional client would bring about a revenue increase of $2078. 5 and assuming profit of about 4.

5 %, assuming an increase to 308 clients per planner Cost to the company: 72962232 Revenue generated in 1987 would be: 3, 880889733 If only this alternative and increasing the sales force were to be used, an additional expenditure of about 72 million is to be undertaken, this is quite a formidable investment 1 . B Number of sales per planner: According to exhibit 5 average

accounts per client is 2. 34. These 2. 34 accounts contribute to the average 2078. Revenue per client.

Therefore revenue per account is $2078. 57 / 2. 34 = $888. 28 The cost for getting a new account can be calculated from Existing -Client Programs. $1651650 / 53240 = $31.

02 This is the cost for getting one new account. The return on investment will be For the revenue target to be matched The accounts per customer has to be increased to 3. 041 The cost occurred would be $ 30483764. 82 1 . C Increase sales force size: From exhibit 6 the total cost for education/ training and Recruiting/Licensing is $10872000 + $ 2369000 = $13241000 Total number of planner appointed in 1986 is 2321 * 0.

= 1996. 06 (From exhibit 8 and 9) The cost incurred per planner is $13241000 / 1996. 06 = $6633. 56 Therefore return on investment is $ 432328 / $6633. 56 = $65.

17 Based on the return itself this option would be the most favorable one and one which would cost the least amount of money From the above analysis it is clear that adding new sales force would bring more return to the company. Again increasing number of sales per client will add more value to the company than increasing the number of clients per planner. 2) Increasing sales force size: The revenue can be increased by expanding the sales force size.

Increase sales force size: From exhibit 6 the total cost for education/ training and I en cost Incurred per planner Is Therefore return on investment on $1 is return to the company and this is in line with the company's objective of doubling the sales force by 1990, increasing number of sales per client will add more value to the company than increasing the number of clients per planner. The main problem with increasing the sales force is that the net addition to the sales force is quite lower than the intake amount and to compound the problem s 32% of the terminated planners Join rival firms this is 1986 was approximately 540 planners.

Considering the fact that Id's competitors are also planning to increase the sales force , the retention rates are expected to get even lower.

Primarily IDS was concentrating on middle segment income group. Their major customers were from this group who had small pocket. In order to get high revenue IDS had to focus on high net worth people. This segment could provide high revenue per account or client. In order to compete in the market and become a premier financial institute IDS had to look into the option of expanding in major metropolitan areas.