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CEO WITH A PLAN

Northwestern Mutual's CEO Ed Zore is taking this insurance giant to new heights

Stick

If Ed Zore had to sum up his business philosophy in a single sentence, he very well might say: “When you find something that works, stick with it.” Zore certainly has stuck with The Northwestern Mutual Life Insurance Company. In a time when the median tenure of employees across the U.S. is four years, he has worked at the Milwaukee-based company for 38 years and currently serves as its 16th president and CEO.

Northwestern Mutual and Zore are a good match because the company also sticks with what works. Founded 150 years ago on the mutual model, in which customers are also owners and share in the profits through dividends, the insurer has maintained that same business structure to this day.

Its purpose and values have remained remarkably consistent, too. In 1873, one of Northwestern Mutual’s senior executives wrote, “The object of this Company is to provide safe insurance and to furnish it at the lowest possible price.” Today, Zore says, “What we try to do is provide financial security to our policy owners. We try to deliver products with the best value and to satisfy the owner’s need for financial securities that are sold the right way. As a result, they are happy, and they are going to stay with us and keep sending us premiums year after year.”

Indeed, it appears that Northwestern Mutual’s policyholders are very happy. Their support has helped the company grow to become the largest direct provider of life insurance, with more than \$1 trillion worth of individual policies in force. In 2006, the insurer retained 96.5 percent of its customers and, unlike some companies in the insurance industry, very few of its customers lodge complaints with regulators or consumer watchdogs.

In fact, Northwestern Mutual is highly regarded in many quarters. *Forbes* has named it the number one “Most Admired” company in its industry for an unprecedented 24 years running. It also has ranked high on *Selling Power’s* list of “America’s 50 Best Companies to Sell For” in each of the past four years.

By Theodore Kinni • Photographs by Cynthia Howe

A lot of the credit for Northwestern Mutual's success is attributable to its sales model, which is another thing that the company has stuck with for almost its entire history. Relationship selling didn't have a name when the company adopted it, and it still remains the company's stock in trade even as life insurance is increasingly being sold over the telephone and Internet.

"It's a relationship-based sale. The only person who wakes up in the morning and says, 'I need some more life insurance,' is somebody who is dying. And that is not the prime prospect for us," says Zore. "Our whole company is based on long-term relationships with our clients, our policy owners, the field, and the home office employees. We want to make sure that this is a people business. It's not just a numbers business."

The insistence on sticking with relationship selling is the primary reason that the company has chosen not to expand its sales internationally. "We take a look at what we do and how we do it – what makes us successful – and it's the long-term focus of adding value that brings results. The business model that we have is based on long-term relationships and providing value over a period of time. It's not a commodity business," explains Zore. "Those business parameters don't exist in most countries. Most of the insurance products are commodities products sold over bank windows."

The relationship that Northwestern Mutual has with its policy owners is built on long-term value. "If you want to buy a whole life insurance policy from us compared to somebody else, I can almost guarantee you that on the front-end you can find somebody with a lower premium than us. But I will absolutely guarantee you that after 25 years, you will look at the product you got from us and say, 'Wow, what a big difference, I am so much better off,'" says Zore. "We don't bring you on board by selling you at Wal-Mart prices. We bring you on board by saying we are going to give you a real fair deal long-term and a tremendous value."

This winning combination of relationship building and long-term value is delivered to customers via Northwestern Mutual's sales force. Unsurprisingly, the company has stuck to what works here, too. It started growing its sales force with independent agents in the early 1860s. Today, its 7,000 financial sales professionals are still independent contractors working from 350 offices, which are also independently owned and managed.

The sales representatives in the field force enjoy an exclusive relationship with the insurer. "You cannot buy our product from anybody but a Northwestern Mutual repre-

sentative," explains Zore. "Our field force can sell other folks' products and they do." He adds, "You cannot buy a policy directly from us or from a broker or over a bank counter."

An independent sales force might seem antithetical to the company's relationship-selling model, but Northwestern Mutual's ties to its field force are also very deep and strong.

"A lot of our brand value is in the field force. The face of the company to the customer is the field representative. They are Northwestern Mutual to the client. We are just in the background," says Zore. "The field representatives have to represent the company well to build the brand. That's why we spend so much time trying to make sure that they do business the right way, follow the best practices, and that the experience that customers have with the representative is appropriate for the Northwestern Mutual brand."



If you JUMP SHIP every three years, and it takes a year to get used to your new territory and customers, and your sales career will span 42 years, you'll lose an average of fourteen sales years just getting readjusted to your new job(s). Take a tip for success from Ed Zore and STAY PUT.

Because Northwestern Mutual's sales representatives and offices are independent, they can sell other companies' products to their customers. Nevertheless, Zore believes that they send his company the vast majority of their transactions.

"Our contract with them says that we deserve and we expect the first crack at the business. If we don't offer a product, or if we don't want to take the risk, they have the ability to go elsewhere," says the CEO. "But we get about 85 percent of our field force's business even though they are independent contractors."

The company keeps that percentage so high in various ways:

First, it provides their clients with high-quality products and service. Northwestern Mutual is consistent in its refusal to compromise that value and, in doing so, has earned the field force's confidence.

In the late 1990s, for instance, when the company introduced its first long-term care insurance product, it set a price for the coverage that was substantially more than its competitors. The sales representatives complained, but when the company re-evaluated its pricing, it was still convinced that it

reflected the best long-term value.

"This is a product you can reprice every year," says Zore. "But we never wanted to reprice a product on an 85-year old woman about to go into a nursing home who had been paying premiums for 20 years."

In fact, long-term care insurers soon experienced a major shake-out, and the companies that hadn't priced their product properly passed on large premium increases to the policy holders or left the business altogether. Today, Northwestern Mutual's share of that market is approaching 7 percent and it's still growing.

"We are in the enviable spot that when we take a look at the dividends that we are paying out we are actually below the median in price," says Zore of his company's long-term care product. "It's a product that is really, really doing well and because we had the field force aligned with us, because we had their confidence, because they understood the way we operate and our behavior long-term, we had the time to just wait it out."

Northwestern Mutual's internal systems also support the loyalty of its independent sales representatives. The company makes a point of responding quickly and efficiently to the needs of its policy owners.

"If you've gone through claims processing with Northwestern Mutual and anybody else, there is a huge, huge difference," says Zore. "We try to pay every claim that we should pay as quickly as possible with the least amount of hassle. That is part of our brand, one of our core competencies."

After the terrorist attacks of September 11, the company paid about \$150 million of claims even before death certificates were issued. In fact, several sales representatives asked the company to slow the payments because their shocked and grieving clients were not yet mentally prepared to receive them.

Second, the company goes to great lengths to ensure that the field force is tightly aligned to its values, culture, and methods of conducting business. This effort places a great deal of focus on the company's sales leaders – the 90 or so managing partners who run its network of independent offices.

"All of our managing partners have developed and grown up in our system," says Zore. "They've come in as field agents and they have gone through management positions in the field. Many of them have come back into the home office. So, by the time there is a territory that is open, they know the Northwestern Mutual deal, and they are part of the culture. If, on the other hand, we brought managers in from the out-

side, we'd have to deprogram them and then reprogram them. And we've found over the years that is a losing battle."

The effort to keep the sales representatives in the field force aligned with the Northwestern Mutual way continues with communication. "We work very, very closely with them. We don't just have them out there and send them emails," says Zore. "They interact with us on a continuing basis. We know what is on their minds and they know what is on our minds, and we work together to solve problems. So, even though they are not employees, we are all on the same page, and we are all working toward the same objectives."

This alignment effort also extends to the recruitment of new sales representatives. Since 1967, for instance, more than 22,500 students have participated in the company's intern program. Currently, about 1,700 students are offered internships each year.

"It's a very, very attractive recruiting opportunity for us and it is good for the interns," says Zore. "They learn the business. They learn about the folks in the business. They get terrific experience actually developing clients and selling stuff."

The effectiveness of the program is in the numbers: 41 percent of the managing partners and one in five of the company's top performing sales representatives were once interns themselves.

Third and finally, as you might expect, Northwestern Mutual earns the loyalty of its field force by sticking to what works. "We don't bounce from theme to theme. We know what it is we do well and we try to get better at what we do. It's a basic, simple business model that is very complex to execute," says Zore.

And it appears that the company can stick to it for a lot longer. "When we take a look at the U.S., we are the biggest provider of individual life insurance, with 10 percent of the market. We have 14 percent of disability income and we are closing in on 7 percent of long-term care," says Zore. "That leaves 90 percent of the life insurance market, 86 percent of the disability income market, and 93 percent of long-term care. We have such tremendous opportunities right now."

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"We want to make sure that this is a people business. It's not just a numbers business."

Ed Zore on Sales Success

About 20 percent of Northwestern Mutual's sales representatives make it past their fifth anniversary with the company (twice the industry average). What qualities distinguish these winning sales professionals? Zore says:

"The first thing is you've got to develop good work habits. You've got to meet with people. You've got to do fact-finding. You've got to identify what people need. You've got to be disciplined about it. You've got to have the appointments every day, three appointments.

"In our company, you have to have a high degree of integrity. You have to have the trust of your associates, you have to have the trust of your customers, and you have to have the trust of the people in the home office. They have to know that you are headed in the right direction and that you've got the right perspective on how the business should be done.

"You've got to be very knowledgeable about the products, and today that's a lot more difficult than it was in the past. When I started, a rate book contained just about everything you needed to know about the business. Now, even a laptop doesn't have enough space in it for all the permutations of products.

"Finally, you have to be willing to collaborate because the competition is getting tougher and tougher out there. Representatives have to be more willing to bring in more skill and more help as needed in areas where they don't have the expertise."

Why stick with it? "The average Northwestern Mutual sales representative is going to make more than the average doctor. Those at the high end are going to make more than the high-end doctor," says Zore. "They deal with the people they want to deal with, and they are doing it on their terms. It's a very, very rewarding profession."

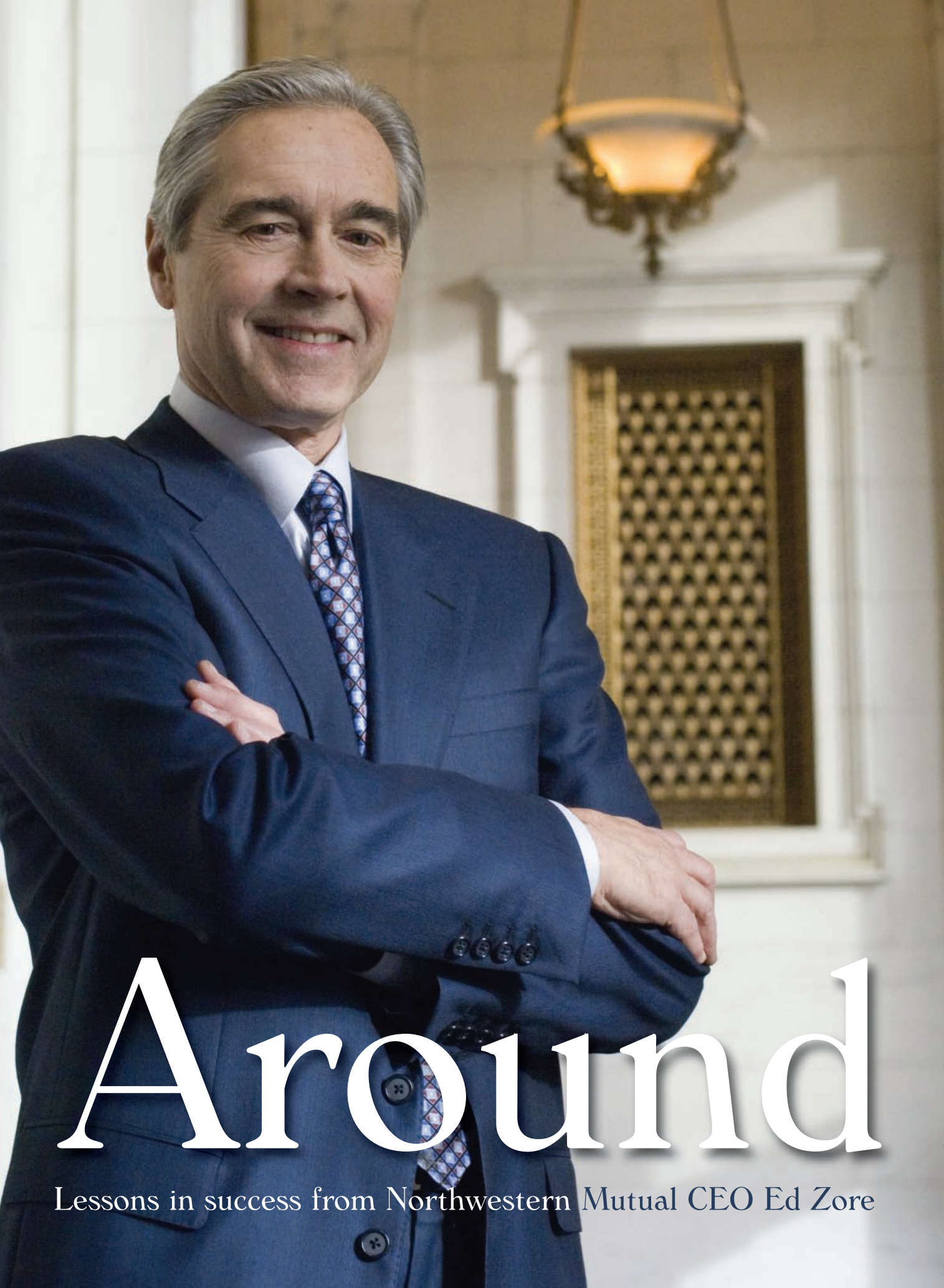
Dealing with Successful Coasters

Success in sales can be a double-edged sword if it leads to complacency and "coasting." Here's how Northwestern Mutual keeps its most successful reps on track, according to Zore.

"In our business, we call that 'premature retrogression.' It usually happens about the twelfth to fifteenth year. Agents get the book of business going, and they develop a good practice. It's getting easier and easier, and all of a sudden they say, 'I have great customers. I have the income I need, and I don't have to work as hard.'

"It's a real challenge to try to figure out how to get those people back in the game and motivated. Number one is the 'ribbon.' A lot of people will work for a ribbon where they won't work for extra money. Recognition is a very real thing.

"The other thing is new products. We have investment products as well as protection products, and a lot of the veterans have said, 'You know what, I have this great block of clients here and I can now do more things for them.' So, they got re-engaged and their production is going up."



Around

Lessons in success from Northwestern Mutual CEO Ed Zore

The 25 Best Service Companies to Sell For

RANK	COMPANY	COMPENSATION PACKAGE	TRAINING	CAREER MOBILITY	TOTAL POINTS
1	Northwestern Mutual	45	15	18	78
2	InfoUSA	45	15	17	77
3	Marriott Vacation Club International	44	15	18	77
4	Cintas	43	16	17	76
5	Verizon Information Services	44	14	18	76
6	WW Grainger	40	18	18	76
7	ABF Freight System	43	14	18	75
8	Aramark	42	15	18	75
9	Marriott International	43	15	17	75
10	United Parcel Service	43	14	18	75
11	Insight Enterprises	42	14	18	74
12	Yellow Book USA (Yell Group)	43	13	18	74
13	YRC Worldwide	42	16	16	74
14	CareerBuilder	43	13	17	73
15	FedEx	43	14	16	73
16	Lawson Products	42	14	17	73
17	Valassis Communications	43	13	17	73
18	CDW	41	15	16	72
19	Computer Associates International	44	12	16	72
20	Monster Worldwide	43	12	16	71
21	Orkin	41	14	16	71
22	Wells Fargo	42	14	15	71
23	IKON Office Solutions	41	14	15	70
24	R. R. Donnelley	41	13	16	70
25	Sprint Nextel	40	14	16	70

#1 Northwestern Mutual

COMPANY HIGHLIGHTS	
COMPENSATION	
Salary	9
Incentive Pay	10
Pension	9
Health	9
Company Car	8
Total	45
TRAINING	
Product Knowledge	8
Selling Skills	7
Total	15
CAREER MOBILITY	
Performance Reviews	9
Turnover/Promotions	9
Total	18
TOTAL POINT SCORE:	78

The 10 Largest Sales Forces of the Best-Rated Service Companies

RANK	COMPANY	NUMBER OF SALESPeOPLE	WORLDWIDE EMPLOYEES	ANNUAL SALES (\$ MILLIONS)	50 BEST RANKING
1	Sprint Nextel	9,000	103,483	\$41,028	25
2	Marriott Vacation Club Int'l.	8,500	150,600	\$12,160	9
3	Northwestern Mutual	7,500	4,800	\$19,733	1
4	Yellow Book USA (Yell Group)	5,953	11,638	\$3,035	12
5	Computer Associates International	5,100	14,500	\$3,943	19
6	IKON Office Solutions	5,000	25,000	\$4,228	23
7	United Parcel Service	3,900	428,000	\$47,547	10
8	Cintas	3,000	32,000	\$3,707	4
9	Verizon Information Services	2,800	242,000	\$88,144	5
10	CDW	2,500	5,500	\$6,786	18