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CEO Influence on Marketing
- Tipping the balance in favor of your firm

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CEO Influence on Marketing – Tipping the balance in favor of your firm

Introduction

Investment professionals often lead their firms, and some of them may wonder what salespeople do all day! As one CEO once said to me, "As far as I can tell, the best salespeople sprinkle magic dust over prospects in order to turn them into clients."

The best salespeople are more talented than some people recognize, and there are also important ways that CEOs can broadly influence and enhance overall sales performance.

In general, CEOs can make or break their firm's sales efforts by leading a culture that respects client needs, managing sales efforts, ensuring that products are well positioned, targeting all suitable channels, developing new products and smart pricing.

Client Evolution

Client perspectives are changing as always. For many years, clients have preferred managers with historically strong investment performance, and also the largest firms. These preferences have not paid off in better investment performance, but instead have contributed to turnover in money managers resembling a carousel, which has compounded poor results for client portfolios. Fortunately, documented evidence that performance chasing is unproductive has finally attracted client's attention.

Intermediaries who have a powerful influence over clients are also modifying their approach. One major rating service, for example has adopted a new approach to supplement the stars that they have historically used to judge manager performance. This new manager approach is more forward –looking. While we don't know if it will catch on, it has the potential to reverse the marginalization of many deserving and highly competent investment management firms. Hopefully, this emphasis on a more forward-looking assessment will reduce the flows almost exclusively towards four and five star funds.

Asset managers should monitor the rollout of these new fund metrics carefully for their impact on customer behavior, as well as the potential influence on the behavior of intermediaries.

Manager Presentation

However, money managers also have some work to do with improving how they present themselves to prospective and current clients. For example, the relatively sudden influx of institutional money into alternative investment classes has stretched the marketing ability of alternative investment managers who often struggle to meet the expectations of institutional investors. For example, both clients and consultants are insisting on more access to investment professionals, and more frequent and informative communication.

One of the reasons for this heightened client attention is concern about how managers are managing risk. Many clients are nervous that investment processes have apparently not evolved much since 2008. Clients want to know how your portfolio will respond to future events requiring downside protection. You may not agree with their perspective, but you must at least understand how their feelings and responsibilities have changed, and determine how can you help.

Leaders need to be sure that their firm meets ever-changing client expectations by using a disciplined, respectful effort, with a dose of humility.

Heightened sensitivity to the client perspective can also help you to grow revenues. Understanding why your clients hired you in the first place, and why they remain clients can help to give you clues as to your firm's appeal to particular market segments. For example, clients who are inclined to be more aggressive investors, may not care about volatility in your investment results if longer term returns are strong.

But be aware of the need to tailor your approach. Your firm should always be focused on targeting the next most likely prospective clients.

It is easy to be sidetracked by talkative prospects, or worse, people without hiring authority, or even influence. Be focused and continuously check that your firm is aligned to serve the client segments that you seek.

Some client segments are more tightly knit than others. It takes time to build a reputation in specific segments, such as Taft-Hartley, family offices, and RIAs. Be sure not to surprise clients in these communities with unexpected actions or results, or your reputation will be mud across the entire group.

Have compelling stories and tell them well. Your story must convince others that you will be around in the long term. If you're not sure if you do this, ask for feedback. Your investment processes should make sense to the lay person, and the investment expert alike.

Prospective clients are digging deeper into these stories these days. Due diligence is so important to investors, that it might be worthwhile to create your own written due diligence question-and-answer report to allay fears right up front.

For example, is there anything changing in your organization that is raising questions for outsiders? For example, turnover of people, or prospective changes in the firm's ownership?

If you are a global organization, your challenge is to have your messaging be consistent everywhere. While there may be regional or country variations, you need to present the same core messages.

In spite of all of your firm's efforts, you may find that the market appetite for your core investment products is slowing. Or intermediaries such as consulting firms, distribution channels, client segments and particular geographic regions may have particular preferences that do not favor your firm's products, from time to time. Use these periods to explore possible product extensions which may arise from your core capabilities, or consider targeting new distribution channels, client segments or new geographic regions.

Managing people

Believe it or not, not everyone asked or hired to sell, truly likes selling. If they don't want to sell, they won't. And yelling at them or providing attractive incentives won't help. If you press these reluctant salespeople for why sales are slow, they will give you 100 excuses for why clients are not buying your product.

Your salespeople must have a desire to sell in their heart, and it's up to you to first identify, and then continuously monitor that you still have these people. You also have to be realistic that only a minority of your sales force will meet your expectations.

Leaders can improve sales results by hiring and retaining the right people, cutting away distractions, setting goals, providing effective incentives and monitoring.

First, identify the skills that are needed to succeed in sales of your firm's particular products, and then use behavioral interviewing techniques to ensure that your new hires have these core skills.

Relying on past sales success to identify talent is not effective. People's personal goals sometimes change over time, and people can burn out.

Next, assess the burden of administrative tasks that occupy your sales staff. Cut these tasks away from your sales people, in order to simplify their life, and free up their time to sell.

Sometimes, salespeople who really don't want to sell, will bury themselves in administration. They will resist if you try to pull them away from this work. Then you'll know that they should not be in sales at all.

Set goals for your salespeople. The expectations will then be clear, and conversations about progress can be more centered.

The rewards for sales results should be clear, and any incentive program should not create disincentives for your salespeople. Examples of this include caps on incentives, or no incentive for particular products.

Lastly, simple and regular reporting of key drivers such as the number and quality of contacts, and the intended next steps can help to keep everyone aligned to achieve sales goals.

Product

If you don’t do this already, try bringing together your investment staff and salespeople on a regular basis to formally discuss your products and their characteristics. It's important to reconcile the market's perceptions of your product, as conveyed by your salespeople, with what your investment people believe to be true about their investment product. Often there some subtle changes in the investment process, or even just its description, that can change a product’s appeal to prospective clients. Not all of the beliefs about your product can be reconciled by bringing together your people in this way, and in some cases, sales and investment staff may have to agree to disagree. Historic investment performance is one example of something that can't be changed.

Investment staff should be open to considering that an investment process can be enhanced by considered feedback. Experienced sales people can sometimes directly help to upgrade the quality of the firm's investment process, by asking the right questions. I know a marketing leader who has a list of 1000 questions that she poses to managers that she represents. It is probably much better for her to ask, and have these questions considered by the firm’s investment professionals in advance, before they are stumped in a critical meeting by intense questioning from a determined prospective client or consultant. More importantly, questions can encourage investment professionals to reconsider, or even just reaffirm, why they do what they do.

But a note of caution here. On the downside, sales feedback, if given too forcefully, can be detrimental. Even with the best of intentions, the effort can backfire. Salespeople must recognize that not all products can be improved by their sales insights.

On the other hand, it is also important to acknowledge that products don't have to be perfect to be successful in the market – if effectively represented by self-motivated salespeople.

There are many examples of the next - best products being successful across many industries. Market leaders in many product and service categories do not have the best product by objective standards. However, they lead their category by having a total offering that exceeds the competition. Even if your investment product has a blemish or two, there are ways to create a fulfilling offering for clients.

Fortunately for many of the largest fund managers, they have brand names that can carry them through times of investment underperformance. However, large fund managers cannot always rely on their brand name, and we have seen startling outflows over the years from some of the historic giants in this business.

Smaller managers, or those firms with less prominent brands can stand out by offering more access to portfolio managers, and take other actions to be perceived as more strongly service oriented.

We are all well aware that this is a competitive business. By one count, there are more than 20,000 institutional quality asset management firms that are targeting institutional clients. Your firm

is not alone. Try sitting in the research manager's chair in a major consulting firm, and you will quickly understand that the manager selection process is a misnomer. It is a manager rejection process.

Working with internal channels

Diversified financial services firms represent both a challenge and an opportunity for their own asset management affiliates. Few diversified firms have been notably successful in integrating their investment sales efforts with distribution, without triggering at least perceptions of a conflict of interest with clients.

But diversified financial services firms have been working at these challenges for a long time now, and there are some helpful lessons to consider from some of the more successful firms. These lessons may also be helpful to independent firms that offer their products through 3rd party distribution channels.

First, the distribution channel needs to be well educated about the value of your products to the customer, have a very clear understanding of the characteristics of your investment products, and as well, they need to acknowledge the benefits to the organization of deepening client relationships.

Second, personal relationships between the investment staff and salespeople are critical. Individuals need to get to know and trust one another. For sales staff, long-term business relationships with their clients are at stake, and investment staff need to be conscientious about preserving these client relationships. Salespeople on the other hand, need to trust their investment colleagues to not spoil the client relationships.

Third, sales shortfalls cannot be resolved only by increasing individual compensation. If front-line people don't want to sell, for whatever reason, they won't sell – no matter how much you pay them. Incentives provided to

supervisors however can be a different matter. If the manager's incentive pay is tied explicitly to selling goals, and it is substantial enough, this can make a difference in their motivation to aggressively encourage sales by their staff.

New products

While identifying the most likely early adopters of a new product is challenging, the ramp-up time is often further elongated by the need for missionary work to educate prospective clients about the benefits of your new transformative product. And then, if the product doesn't have staying power, the withdrawal of client assets may be sudden.

Some firms are more cautious about introducing new products that are likely to have a limited shelf life. But this is a decision that each firm must evaluate on its own.

Innovative new products may provide at least a temporary boost to revenues, as competition is limited and fees are high. Introducing new products may be needed as a defensive strategy too.

Given the preference in recent times for hedge funds, passive products and non-U.S. investments, product line extensions may be necessary defensive steps for a traditional domestic money management firm. For example, large capitalization long only equity managers may choose to create a new product based on companies that they have observed and found of interest in their investment analysis, but that fail to meet the minimum capitalization threshold required for their large-cap portfolio. So they develop and market a mid-cap capability. But this relatively easy and logical step may be inadequate to preserve the firm.

Managers may choose to add shorting skills to their capabilities, in order to access alternative mandates from prospects.

At the other end of the capitalization spectrum, a small capitalization stock manager may choose to move up the

capitalization scale by offering a small-mid cap equity (SMID) product, which again is a somewhat timid step from a business preservation perspective.

Or they may choose to develop an international small cap product instead, to broaden the firm's opportunities.

There are significant marketing advantages for managers with solid capabilities who choose to add new product lines, particularly extensions of their current brands. Certainly, a large-cap manager, already approved by major consulting firms, will have an easier time introducing new products than a brand-new standalone manager. Often the product line extensions have overlaps in terms of people and process, which facilitates getting consultant approval for the new capability.

However, you can't always be certain that the new product will get a free pass just because the firm has already been previously approved. The people/teams involved, processes, and track record, usually need to be affirmed.

This new capability cannot be a weak sister of the core capability either. It must have the resources needed to be successful on its own. In fact, it may be prudent for your sales team to think of any new product – even a line extension - as a startup. Sure, one with some advantages over a pure startup - but still fighting to gain recognition as an independent capability.

There is another perhaps surprising challenge awaiting money managers seeking to extend their product lines. Often the selection of a new product arises from the manager's own preference or skills without much initial thought as to whether there is any current market demand for the product capability. There are multi-year trends towards certain asset classes, and away from others. Investment management leaders may be disappointed with how long it takes to gain traction for a new capability.

If the capability is compelling however, there are hundreds of consultants and other intermediaries to talk to, as well as new distribution channels, and new geographies to consider. But if the product is very different from what your firm has offered in the past, these segments, channels and geographies may be new to your sales team. Has your firm prepared adequately to address these challenges? How will your team choose which prospects to solicit first? Every firm has limited resources, and cannot approach every prospect simultaneously.

If you do not have a track record of performance for your new product, how will you attract prospects? If you do have a portable track record, or a reputation to rely upon, you are fortunate. You will still have work to do to ensure that the link between historic performance, and your new product, is clear to prospective clients, as well as to intermediaries who are doing their due diligence.

With so many competitive products available, the process of choosing a product by prospects and their advisers is often one of exclusion, not inclusion. Prospects look for reasons to disqualify a product from further consideration as

quickly as possible, because they have so many products to review.

Is your product up to these rigorous due diligence challenges? Marketing a new product is not just about beating the bushes looking for clients.

How does your sales team feel about representing this new product? Your sales team will have to fill up the databases of hundreds of consulting firms and other intermediaries, and attract their attention. Your teams need to be highly motivated and ready to attack targeted client segments, distribution channels, and geographies.

If your new product is very similar to the capability that your current clients utilize, then your sales team can analyze your existing client base to identify the characteristics that encouraged your clients to hire you. Similar characteristics can then be sought in new prospects.

Since a product line extension offers a new set of challenges, which will require patience from your team anyway, it is better to be bold in your selection of a product line extension. Why not introduce a capability that is likely to be in demand for the long run?

Here's a test to see if your firm is prepared for the challenge of launching a new product. If you had to borrow money to finance your firm's launch of your new product, would you have a compelling story to tell a bank loan officer to convince them to lend you the money?

CIO Outsourcing

CIO Outsourcing is another opportunity for investment management firms to consider introducing to serve their clients. Consulting firms, or those with roots in consulting have historically dominated this arena, but this is changing. Consulting firms have had the early advantage of much deeper relationships, as they spend a great deal more time with clients than most asset managers.

But while Version 1.0 of CIO outsourcing has been built on the credibility of the outsourcer and trust, version 2.0 is likely to be built on investment performance, risk management, investment process differentiation, and a sustainable platform. In other words, the demands are rising. Investment management organizations are much better suited to provide investment outsourcing and serve client interests than consulting firms. CIO Outsourcing represents a tremendous opportunity for investment management firms today.

Pricing

Pricing is a powerful short-term lever for enhancing operating margins. I would argue that it is the single most important element for ensuring a healthy profit margin. It is also probably the most overlooked element in the asset management leaders toolkit.

Here's something that you can do immediately to improve revenues. Are all of your clients on your most recent fee schedule? If you have been in business for a number of years, it's likely that some of your clients are paying fees based on previous fee schedules. You need to migrate all of your clients towards paying fees based on the same schedule. Not only does this benefit your firm, but it is also fairer to all clients. There are many good reasons to keep clients' fee schedules up to date.

Next, if you were to list all of your clients by the fees that they pay in relation to your current fee schedule, how many are getting a discount? I realize that there are always exceptions, and that some clients or client segments will always receive a discounted fee. But who approves the fee discount? Fee discounts should be the exception not the rule. The leadership of the firm should determine what client segment or individual client receives any discounts, and re-approve fee discounts on an annual basis. Keeping clients with a fee discount to the lowest possible number is crucial to profitability.

Fee discounts are a flat-out reduction of profitability.

Updating fee schedules and strictly limiting discounts can enhance profitability significantly. There will be pushback from your own internal client facing staff, as well as clients themselves, but in my experience in implementing these changes at several firms, the positive impact on firm profitability far outweighs the costs. Even some client losses are acceptable, if the impact on overall revenues and profit is a net gain. There are tools available that integrate science and judgment and that can be used to forecast the likely impact of enforcing your fee schedule.

Internal staff can then be educated in how to present this decision to clients in ways which minimize client defections.

Opportunities

There are always new channels, new geographies, new segments and new intermediaries to explore. Repackaging existing capabilities into new products that fit the target audience, is a typical opportunity.

Asset managers often seek to grow sales to leverage their business, but then encounter unexpected challenges that take time and resources. In the geographic arena for example, a shortage of available skilled talent may be aggravated by the unwillingness of some highly qualified prospective employees to work for a new or non-local company. This reluctance to work for foreign companies occurs in many countries and often drives compensation higher. But this isn't the only challenge.

Building your brand in a new market always takes time and establishing a consistent and persistent effort is necessary.

Seven tips for CEOs

One. Monitor regularly how motivated your salespeople are. People's motivations change over time.

Two. Identify and target your next most likely prospective client segment to help focus your firm's efforts.

Three. Create your own detailed question-and-answer due diligence report. One executive I know has a list of 1000 questions that they ask of their portfolio management teams. Having good answers before meeting a tough prospect or an intermediary can be the difference between winning business or not.

Four. Consider focusing your sales efforts on the 60+ firms that offer CIO outsourcing and manager-of-managers services to their clients, and try to become a manager for a part of these portfolios. These accounts will be relatively stable clients over time, and will become strong endorsements of your investment capability. CIO outsourcing is growing extremely quickly.

Five. Plan your entry into new markets, whether new geographies, new client segments or new distribution channels carefully, as early missteps may not be reversible. Prospects don't have the time to reconsider managers who failed to meet expectations the first time.

Six. Both clients and intermediaries are demanding increased access to your investment professionals. Prepare to accommodate these demands without diminishing your investment results, and explain how you'll do this to prospective clients.

Seven. Staff turnover and firm ownership loom large in the evaluation of firms. What can you do and say to alleviate these concerns?

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