

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green, set against a light gray background. The shapes are primarily triangles and polygons, creating a dynamic, layered effect.

# **5 Paths to Increasing Investment Management Firm Revenues**

Your Second Opinion, LLC

# The 5 Paths

1. Extend the duration and profit of each client relationship
2. Capture share from direct competitors and substitutes
3. Jump on popular trends
4. Extend product lines and distribution
5. Introduce new products to the world

# Introduction

- ▶ Industry revenue growth from new flows has slowed
- ▶ Revenue drives both profit and compensation
- ▶ Revenue growth too important to be left to sales team

# 1. Extend the Duration and Profit of Each Client Relationship

- A. Ensure product robustness through continuous investment process review
- B. Strengthen client service
- C. Consider cross-selling
- D. Review fees
- E. Prepare for fee pressure
- F. Anticipate client departures
- G. Reputation

# A. Ensure Product Robustness Through Continuous Investment Process Review

- ▶ Monitor effectiveness of interactions between teams
- ▶ Enhance the contribution of email, meetings
- ▶ Efficiently process the execution of decisions
- ▶ No unusual deviations in risk other than for investment opportunity, or at client request.
- ▶ Improve time management
- ▶ Anticipate behavioral biases
- ▶ Avoid superficially sharing investment style
- ▶ Manage client demands on portfolio manager time
- ▶ Scrutinize the performance of exceptions to the stated investment process
- ▶ Feedback loop from both successes and failures

## B. Strengthen Client Service

- ▶ Any job has to meet a specific set of needs of the firm, and as well, the individual.
- ▶ Some may be looking for career development, others not
- ▶ Design the job so that the position does not become a bottleneck
- ▶ Money may not be enough if someone is deeply dissatisfied with their job
- ▶ Use the critical competencies of your best people as a standard by which you recruit, retain and reward
- ▶ Metrics: Engagement of staff, employee turnover, responsiveness of staff to resolving errors on a timely basis
- ▶ Do your client service people have the support that they need to serve the customer in the best way possible?

## C. Consider Cross – Selling

- ▶ Create dedicated internal groups to proactively seek out, as well as respond to, cross-sell opportunities with current clients
- ▶ This is both defensive – to protect against client departures, as well as an assertive effort to grow revenues

## D. Fees

- ▶ Do all of your clients pay full fees based on your current fee schedule?
- ▶ Why are exceptions granted? How often are these discounts reconsidered?
- ▶ Discount fees only to enhance the long-term economic value of the firm
- ▶ Fee discounts based on the size of the client introduces client concentration risk
- ▶ It is only fair that all clients pay fair market value for the same services
- ▶ Extraordinary alpha, and/or limited capacity available, should equal higher fees
- ▶ Consider increasing fees for existing clients, for new clients, for variations of the product or for new client segments



## E. Fee Pressures

- ▶ Calls from industry observers for lower active investment management fees
- ▶ Fee pressure from clients through direct demands for a discounted fee, while other, more clever types, construct complex formulas in an effort to, in their minds, “better align” manager incentives
- ▶ Understand the logic of the demands to reduce investment management fees.
- ▶ Construct effective answers in response.

## F. Anticipate Client Departures

- ▶ Negative client reactions to poor investment performance
- ▶ Weaknesses in client experience
- ▶ New leadership or new gatekeepers representing client
- ▶ Changes in consultant, or other intermediary/distributor
- ▶ Heavy client reliance on your products/lack of diversification
- ▶ Revisions to preferred asset allocation
- ▶ Need for liquidity

## G. Reputation

- ▶ Being acquired, regulatory issues or lawsuits can draw negative attention
- ▶ Communicate to clients, prospects and intermediaries the fact that suppliers and providers to your firm are continuing to do business with your firm
- ▶ Have related companies such as sister firms or a holding company demonstrate their financial commitment to your firm
- ▶ Remaining clients can help with positive word-of-mouth
- ▶ Target small to midsize intermediaries, and distributors, to rekindle sales
- ▶ May need to replace at least some of your sales staff

## 2. Capture Share and Compete with Substitutes

- A. Stick to fundamentals
- B. Effective sales leadership
- C. Reboot a salesperson
- D. Competing with substitutes

# A. Stick to Fundamentals

- ▶ Portfolio management teams may respond very differently to leadership efforts
- ▶ Add more portfolio management and sales talent
- ▶ Appreciate, support, reward, and celebrate exceptional talent
- ▶ Many currently trendy investment strategies carry unanticipated risks
- ▶ Continually pursue more alpha strategies
- ▶ Continuously search for new distribution channels for your products
- ▶ Clients have similar needs everywhere - you too can have a global brand

## B. Effective Sales Leadership

- ▶ Bring together investment staff and salespeople regularly
- ▶ Understand why your current clients remain clients
- ▶ Explore possible product extensions arising from core capabilities, new distribution channels and new geographic regions
- ▶ Examine the competencies of your sales staff
- ▶ People's personal goals sometimes change over time, and people can burn out
- ▶ Set goals for your salespeople, simple reporting and clear rewards
- ▶ Assess the burden of administrative tasks that occupy your sales staff

## C. Rebooting a Salesperson

- ▶ Access to portfolio managers and needed information, support from other staff
- ▶ Personal issues
- ▶ Job fatigue
- ▶ New or unfamiliar products, channels and geographies may require additional specialized sales people

## D. Competing With Substitutes

- ▶ Clients are considering a broader range of products to meet their needs
- ▶ Some buyers and intermediaries are moving away from style boxes.
- ▶ Client focus on the similarities of products, and how each contributes to meeting their overall goals.
- ▶ Key to taking share from substitutes is having a deep understanding of what answers or solutions your products are providing for clients
- ▶ Increasingly, clients are using factor analysis.



# 3. Respond to Popular Trends

- ▶ Participate opportunistically, or make small investments in product capabilities
- ▶ Market to fast growing client segments, intermediaries and distributors

A. Accelerate Sales Quickly

B. Lift-Outs of Product Teams from Other Firms

## A. Accelerate Sales Quickly

- ▶ Tell everyone in your firm directly that the current sales slump is unacceptable
- ▶ Set a sales goal that has a 50/50 chance of being achieved
- ▶ Adjust or replace incentives and disincentives
- ▶ Turn the mood from pessimism towards optimism
- ▶ Identify your next most likely client
- ▶ Consider reviving what you once were successful with, and try it again
- ▶ Pay attention to prospect demands, and consider giving them what they want
- ▶ Allocate resources to the best sales opportunities
- ▶ Celebrate all wins to build momentum

## B. Lift – Outs of Product Teams From Other Firms

- ▶ There are many general and specialty recruiting firms who can access teams
- ▶ Majority of lift-outs occur with the teams and buyers connecting directly
- ▶ Look for lift-outs where teams are; a part of organizations that have duplicate capabilities, in an organization where the firm has indicated a new direction via their resource allocations, a minor part of the overall organization, very successful but may not be receiving their fair share of the economic value, looking for better distribution, a small part of firms that have been recently acquired

## 4. Extend Product Lines, Distribution

- ▶ A product line extension often benefits from having overlaps in people and process, which facilitates getting 3<sup>rd</sup> party approval for the new capability.
- ▶ This new capability cannot be a weak sister of the core capability
- ▶ Think of the new product as a start - up
- ▶ Market demand for a product capability may evaporate unexpectedly
- ▶ You may find that your strongest distribution channels are indifferent

# Issues With a Product Extension

- ▶ Is the product category hot – if so, how long will it last?
- ▶ Do you know where specifically the product category is hot or not?
- ▶ If the product category is not hot – how long are you prepared to wait?
- ▶ Does your firm have the brand, reputation, operational and risk management?
- ▶ Is the investment process description robust and differentiated?
- ▶ How will you get exposure to high-potential buyers?
- ▶ Does everyone in your firm agree on the product's potential?
- ▶ Are there numerous competitors? Are there close substitutes?

# 5. New Products to the World

A. Finding Innovative New Ideas

B. Guidelines for Seeding New Products

C. Challenges to Innovation

# A. Finding Innovative New Ideas

- ▶ *Blue Ocean Strategy* suggests identifying the most important factors which can then be emphasized, de-emphasized, or possibly added or entirely eliminated to develop a superior combination of features, benefits and price
- ▶ Sources of client pain are also a fruitful area for exploring new products
- ▶ Look across alternative industries, across strategic buyer groups, across complementary product and service offerings, across the functional-emotional orientation of an industry, across time
- ▶ Noncustomers of the industry may be the best sources of insight

## B. Guidelines for Seeding New Products

- ▶ A target amount of external assets or revenues within a fixed period
- ▶ Acceptability of revisions to initial outlook for growth
- ▶ Availability of investable
- ▶ Negative feedback from intermediaries
- ▶ Promises made to seeders to return money at a definite time
- ▶ Unanticipated delays
- ▶ Opportunity cost of capital
- ▶ Poor market timing of launch in retrospect



## C. Challenges to Innovation

- ▶ Developing innovative products requires extraordinary insight, and/or luck
- ▶ Copying adept competitors can be a successful strategy
- ▶ Acquiring new talent can facilitate new product innovation
- ▶ The larger the portfolio of these opportunities that you can fund, the better

## C. Challenges to Innovation (cont'd)

- ▶ Does your firm have the talents/skills for break through innovation?
- ▶ Is your firm ready to risk disruptive product innovation?
- ▶ Will your firm solicit independent verification of your new product?
- ▶ Is your firm prepared for the lengthy ramp-up time?
- ▶ Are you prepared to educate prospective clients about the benefits?
- ▶ Legal and compliance will slow efforts, increasing expenses
- ▶ Have input from areas such as IT and operations early in the process

## C. Challenges to Innovation (cont'd)

- ▶ Are there limits to capacity?
- ▶ Is there a possibility of many highly differentiated competitors?
- ▶ Does the product offer liquidity to investors?
- ▶ Ideally, a new product should create its own demand
- ▶ Expected results should be broadly consistent with realized returns, risk
- ▶ Is the source of value from nonparticipants or secondary beneficiaries?
- ▶ What if risk estimates are flawed? What new risks are introduced?
- ▶ Consider any changes in regulation that could make products obsolete or unpopular.

# Bio

Russell Campbell is the CEO of Your Second Opinion, LLC, a management consulting firm offering expert advice to leaders of investment management firms. He writes a weekly subscription newsletter for leaders, and also works one-on-one and with leadership teams on critical issues.

Russell has led 5 investment groups in his career. Prior to establishing his own firm, Russell was the CEO of The Marco Consulting Group, one of the largest institutional investment consulting firms, with a significant CIO outsourcing business. Previously, he was the EVP of AMCORE Bank, and led the Wealth Management Group which was one of the 60 largest bank wealth managers in the U.S.. Russell was the President and CEO of ABN AMRO Asset Management Holdings, Inc., which managed \$75 billion in assets, and was the U.S. investment management affiliate of ABN AMRO Bank. Russell was promoted to this position after having been the CEO of ABN AMRO Asset Management Canada, Inc. He was previously a Vice – President and Partner of Beutel Goodman, Inc., one of Canada’s largest investment counseling firms. His first leadership position was as Vice – President, Bank of Nova Scotia where he led the investment management of the Bank’s own pension fund, and a family office portfolio.

Earlier in his career, he worked as a pension investment consultant, in institutional equity sales and managed a portfolio of precious metals.

Russell has an MBA in Investment Finance and Marketing from York University, and he has a BA in Industrial Relations from McGill University. He also attended the Advanced Management Program at INSEAD in France.

He has earned the Chartered Financial Analyst designation, and has attended both the Financial Analyst’s Seminar and the Investment Management Workshop. Russell has also acquired the Certified Financial Planner™ certification. He previously held Series 7 and 24.

Russell has been a director of several for-profit and not for profit boards, and he is a member of numerous non-profit, civic and industry organizations.

He is quoted frequently in the media and has been a speaker at many industry conferences.

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