



CERULLI  
ASSOCIATES

Post-Crisis  
Marketing Issue

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Post-Crisis  
Value-Add  
Programs

### Summary

Value-add materials should be educational and professional-development-oriented.

## Who Are You?

*Effective educational materials reflect the strengths of an asset manager*

### Key Implications

- ◆ Although programs of educational content cannot be directly tied to sales, such marketing remains an essential part of asset manager distribution strategy. It can serve as an extension of the asset manager's brand or help to deepen relationships at strategic partnerships.
- ◆ When choosing the type of educational content to develop, asset managers must go through a self-examination process—determining whether their primary strength lies in distribution or investment management. Those that believe their strength is investment management must be able to identify a unique investment acumen that they can emphasize.
- ◆ Wholesalers are frequently the delivery mechanism for educational content. Thus, asset managers must ensure that wholesalers are able to deliver this content effectively and, if they're not, the asset manager must be willing to either supply training or a third-party speaker.

Even prior to the recent bear market, asset managers faced a wide variety of challenges in distinguishing themselves in a crowded marketplace. The total number of mutual funds available is comfortably more than 6,000, a figure that does not take into account the variety of separate accounts, exchange-traded funds (ETFs), and other vehicles available to investors and financial advisors.

For asset managers that distribute primarily through financial advisors, differentiation becomes even more challenging. Due diligence teams are exercising greater control over the asset management selection process, particularly at the largest broker/dealers (B/Ds). In some cases, this can include fully packaging portfolios for advisors to recommend to their clients. More often, it entails developing a short or recommended list of asset managers from which advisors can choose. Regardless, this has reduced the ability of front-line wholesalers to influence sales.

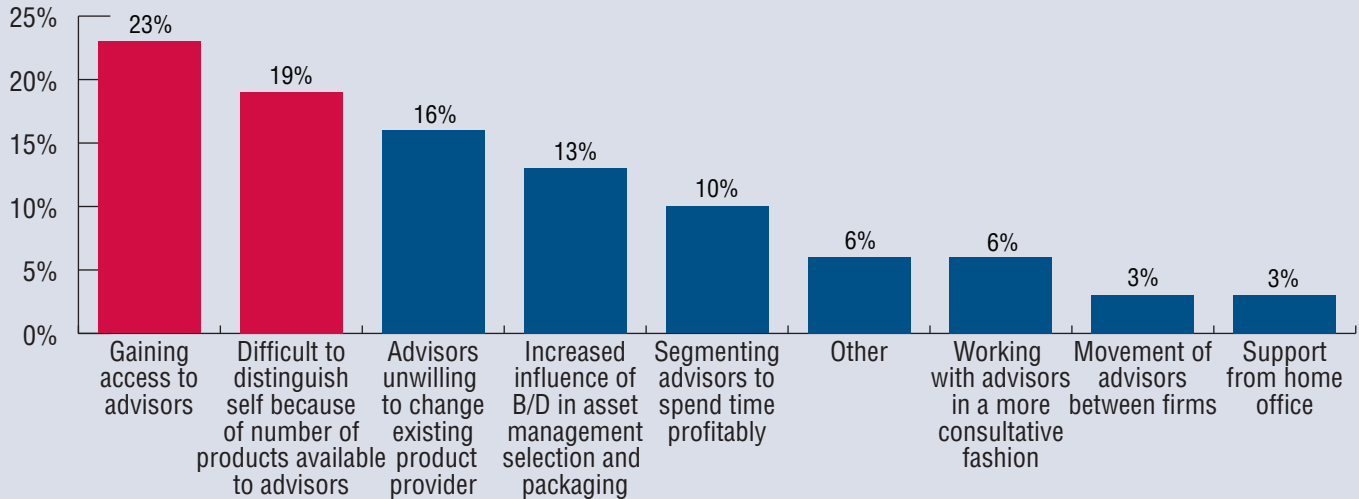
These changes led to asset managers developing so-called "value-add" programs as a way for their wholesalers to work with financial advisors outside of product provision. However, Cerulli has always found the "value-add" moniker to be needlessly nebulous. This type of content can perhaps be better thought of as educational and professional development. Key to defining this type of value-add content is that it must not be specific to individual products.

Educational and professional development content broadly falls into one of two categories. In the first category, the material is oriented to the softer elements of an advisor's practice. It typically suggests ways the advisor can optimize client interactions (*e.g.*, more referrals, better client meetings), but it can also extend to topics such as business valuation for independent practices. The second category of value-add material is investment-oriented. As noted, it should not be in support of a specific product, but rather fo-



## Wholesalers' Greatest Challenge, 2Q 2010

Getting in front of advisors and distinguishing themselves in a crowded marketplace are the two biggest challenges for wholesalers.



Sources: Cerulli Associates, in partnership with the Investment Management Consultants Association

cused on thought leadership in an area where the asset manager has investment expertise (*e.g.*, the case for a specific asset class, asset allocation guidance).

### *Filling a gap*

Recent events have only intensified the need and demand for educational content—both practice- and investment-oriented. First, the industry has seen remarkable merger and acquisition (M&A) activity, expected to result in a trimming of preferred partners at B/Ds. With a multitude of product manufacturers seeking to sell through fewer distributors, B/Ds are seeking the most beneficial partnerships, and asset managers are searching for ways to distinguish themselves and gain face time with advisors.

### **Value-add programs should be considered educational and professional development in nature.**

The opportunity and need for value-add programs has been further intensified by cut-backs within the largest B/Ds. The major New York wirehouses are the largest distribution opportunity in terms of assets under management (AUM), representing nearly 50% of the marketshare of advisor-managed assets. These firms aggressively cut their back offices and support structures to lower inter-

nal costs during the bear market. These cuts included branch manager positions and a broadening of the responsibilities of those who survived. Wirehouse branch managers have a varied list of responsibilities, including compliance and recruiting. These responsibilities also include coaching financial advisors and helping them grow their practices. However, with broadened responsibilities, it may become tougher for these branch managers to work one-on-one with their financial advisors.

Compounding these challenges is an increased focus in the wirehouses on financial advisors growing their practices. Many of the New York wirehouses have built incentives into their compensation plans for advisors to increase their AUM. Clearly, there exists an opportunity for asset managers and product manufacturers to fill this educational and professional development gap. This need doesn't just exist in the wirehouses either. A major registered investment advisor (RIA) custodian, which also has a large asset management business, is reaching out to the asset managers on its platforms to support educational events for their custodial clients.

While there is B/D and financial advisor need for educational content, development and distribution of this content is a challenge for asset managers. It is difficult to link non-product educational content directly to sales. Advisors don't decide to do business with an

asset manager simply because the firm supplied a keynote speaker at an advisor conference or because the wholesaler has a brochure on how to ask for referrals. Rather, asset managers must view educational content as an extension of both their key accounts and branding strategy. From a key accounts standpoint, this material serves the purpose of deepening the asset manager's relationship with a B/D or other distribution partner. Best practice asset managers are positioning their educational programs to support specific B/D initiatives. With limited resources, the asset manager becomes an extension of the B/D's training and communication strategy by delivering similar messages to advisors. Being in front of financial advisors with relevant messages also serves to raise the profile of the asset manager within the firm.

*Matching strengths and content*

It is through this elevated profile that the provision of educational content also serves to expand the brand image of the asset manager. Although our hypothetical keynote speech does not directly tie to sales, for example, it does increase the advisors' familiarity with the asset management firm—which, in turn, makes it easier for the asset manager's wholesalers to get an audience with the advisors.

The idea that educational material extends an asset manager's brand also provides a framework for the types of material that

should be developed. Earlier, we noted that value-add materials are either marketing- and practice-management oriented or are investment-centric. Asset managers need to cover both sides of this equation, but they also must determine where they wish to focus their efforts. Making this choice boils down to deciding upon the area for which the asset manager wants to provide thought leadership to the industry. Where an asset manager focuses and how they choose to educate advisors becomes a natural extension of the firm's brand and how the market perceives them.

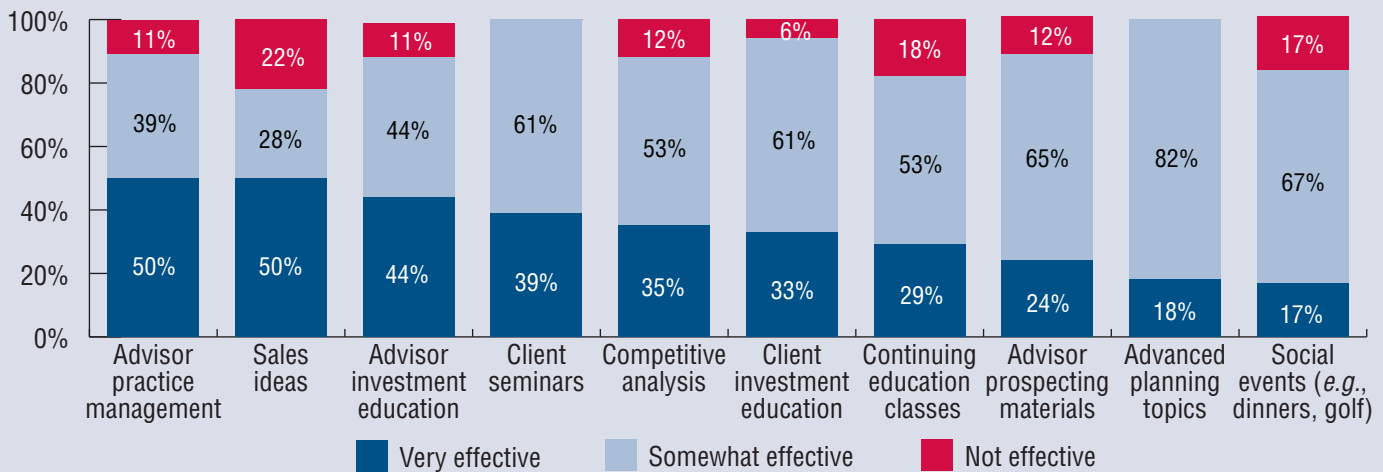
**The value-add content an asset manager chooses becomes a natural extension of the firm's brand—and how the market perceives it.**

Determining this, however, is a challenging process of self-evaluation. Every asset manager is able to elucidate its unique process for managing money. Nearly every firm of size will have baseline skills in managing money. But asset managers must consider whether their primary value lies in being a distributor or an investment manager. Some of the factors to include in this evaluation are the legacy of the firm, the breadth of product offered, and the extent to which distribution and investment management influence each other's strategy.

A firm might be able to describe its money management process, but if it cannot draw

**Sales Managers: Most Effective Types of Marketing to Use with Advisors, 2009**

Sales managers rank practice management as the most effective type of content.



Source: Cerulli Associates

from that a specific area of intellectual capital (that exists at no other firm), it is likely, at its core, a distributor. This is also true of a firm with an extremely broad product line, with multiple offerings in multiple categories—a firm with dozens of different products likely does not have a truly unique, intellectual investment advantage. Most of the leading retail, third-party distributed fund complexes, for example, are distributors first and foremost. Likewise, if a firm can point to a strong investment management legacy, can easily identify truly unique areas of intellectual expertise (*e.g.*, Dodge and Cox), and has developed products around that expertise, they are likely primarily an investment manager.

No asset managers should be wary about internally acknowledging that it is primarily a distributor. To even be in the business, a firm must have a great deal of investment-management prowess. As noted above, there remains a demand and a need in the industry for content that helps advisors build thriving practices.

Thus, firms whose strengths lie in distribution are best served by a focus on, practice-management-oriented content (*e.g.*, the proper way to ask for referrals, running effective seminars). The asset management firms who best execute this type of value-add program carve a variety of courses, topics, and materials into a single place and position

this as part of their overall story. Nuveen Investments, for example, has a Wealth Management Services group that, according to the firm's website, provides educational resources for financial advisors in the essential areas of wealth management. Similarly, MFS has its Heritage Planning program that provides a wide variety of customizable fact sheets and articles about the various financial decisions a client faces.

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**Advanced investment content is most effective in an asset manager's efforts to get in front of high-end advisors.**

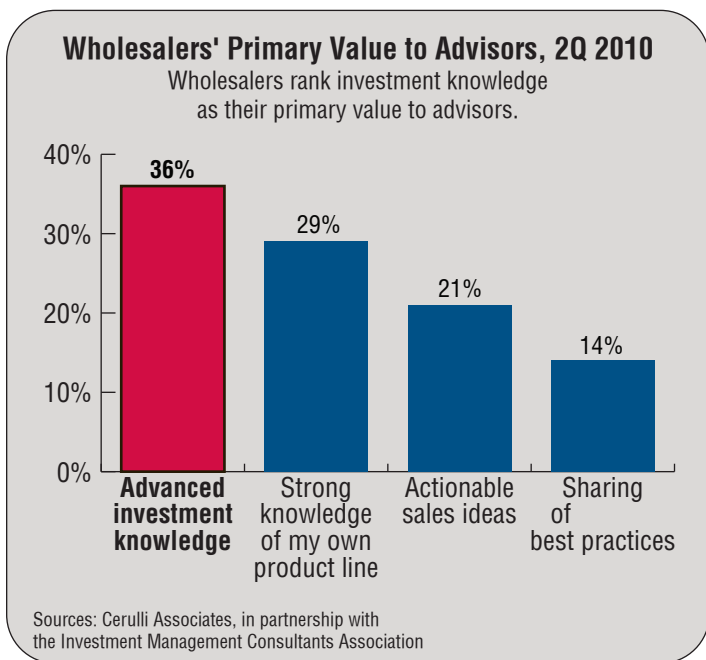
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Asset management firms that have a truly unique investment management acumen and legacy, on the other hand, should use that to their advantage. During uncertain markets, advisors look for direction (*e.g.*, the length of a bear market, signs of a recovery). For those managers with thoughtful, well-regarded market strategists, there are multiple opportunities to get their investment personnel in front of advisors—either at B/D events or, in some cases, on financial news television.

It should be noted that advanced investment content is likely the most effective in an asset manager's efforts to get in front of high-end advisors. These advisors typically have fairly sophisticated practices addressing the complex needs of high-net-worth investors. They already have a successful, thriving practice, so much of the practice management materials will be of little benefit to them. But, since portfolio construction plays a significant role in addressing their clients, these advisors are quite interested in intelligence that enables them to better craft client portfolios. This holds particularly true in the RIA channel, where multiple asset managers report having success approaching these advisors with investment-oriented content—and, importantly, that these advisors are put off by content focused on practice management.

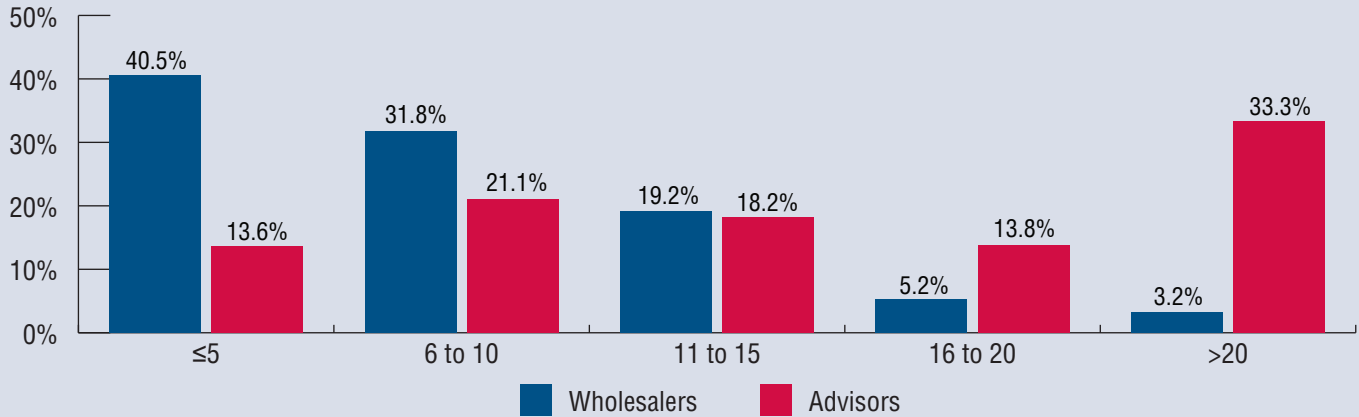
*The wholesaler as educator*

Just because an asset manager chooses to emphasize their strengths in one area does not exempt them from expertise in the other, how-



## Wholesaler-Advisor Comparison: Years as Wholesaler vs. Years as Advisor, 2009

There exists an experience gap between wholesalers and advisors that asset managers must address.



Sources: Cerulli Associates, in partnerships with Advanced Sales Corporation, College for Financial Planning, Financial Planning Association, Investment Management Consultants Association, and Morningstar

ever. Hand-in-hand with many of the trends we have discussed thus far, the content expectations for wholesalers have increased. One sales manager described wholesalers as needing to be “students of the business.”

**Just because an asset manager chooses to emphasize their strengths in one area does not exempt them from expertise in the other.**

A wholesaler who largely has practice management content in their bag still must be knowledgeable about the capital markets and have a defensible opinion about the future direction of the market. On the other hand, a wholesaler working for a firm with a strong investment legacy not only must be able to speak to trends in the capital markets, but must also be able to analyze an advisor’s practice, identify similarities with other advisors in their territory, and, where appropriate, offer suitable suggestions — even without the benefit of appropriate marketing materials.

Regardless, it is the wholesaler who is most often the delivery mechanism for any value-add program — and this presents many potential obstacles. First, an asset manager must be wary of putting the wholesaler in the position of delivering content they cannot support. If a presentation falls flat or the presenter cannot address questions, at best it won’t harm perceptions of the asset manager, but the presentation is not memorable. At

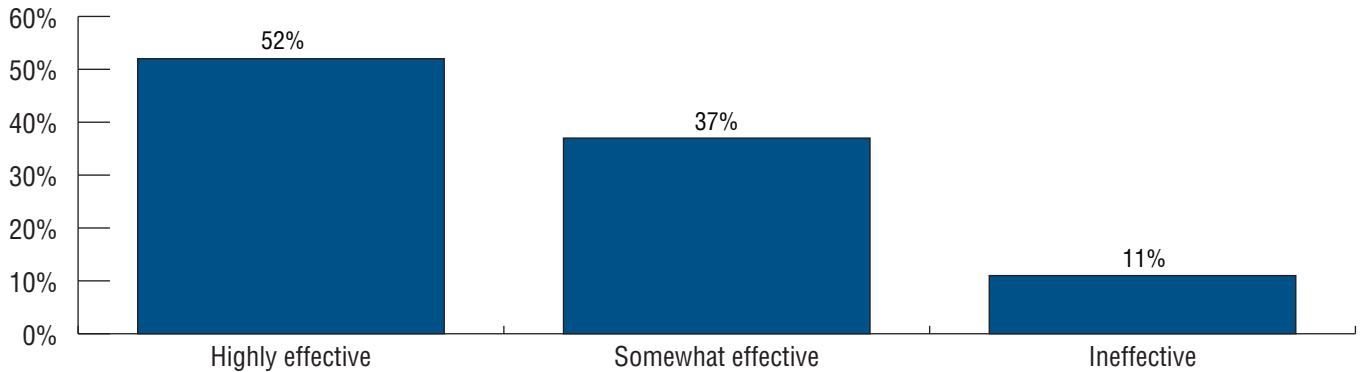
worst, it sullies the reputation of the asset manager. Asset managers can address this challenge either through designated speakers or by hiring outside experts to speak at conferences. Contrary to the belief of some managers, an outside speaker does not cause a firm to appear uninformed. Rather, the firm positions itself as an effective, responsive partner that supplies high-quality, appropriate resources to advisors.

Second, there exists a gap between financial advisors and wholesalers in terms of experience and education. Advisors are, on average, older than wholesalers and more likely to hold a graduate degree or professional designation. Asset managers and individual wholesalers must share responsibility for closing this gap. Asset managers should take an active role in training, providing the necessary education to bring wholesalers up to speed. Likewise, wholesalers must be aware of this gap and become the aforementioned “students of the business” in order to work effectively with advisors.

Cerulli contends that although value-add content cannot be tied directly to sales, providing these programs should remain a key part of asset managers’ distribution strategies. If done well, education becomes an extension of the asset managers’ brand and can create a buzz around the firm. Likewise, helping to educate advisors can serve to deepen strategic partnerships at key B/Ds. ♦

**Wholesalers**

**Wholesalers Rate the Quality of Competitive Information They Receive from Their Firms, 2Q 2010**

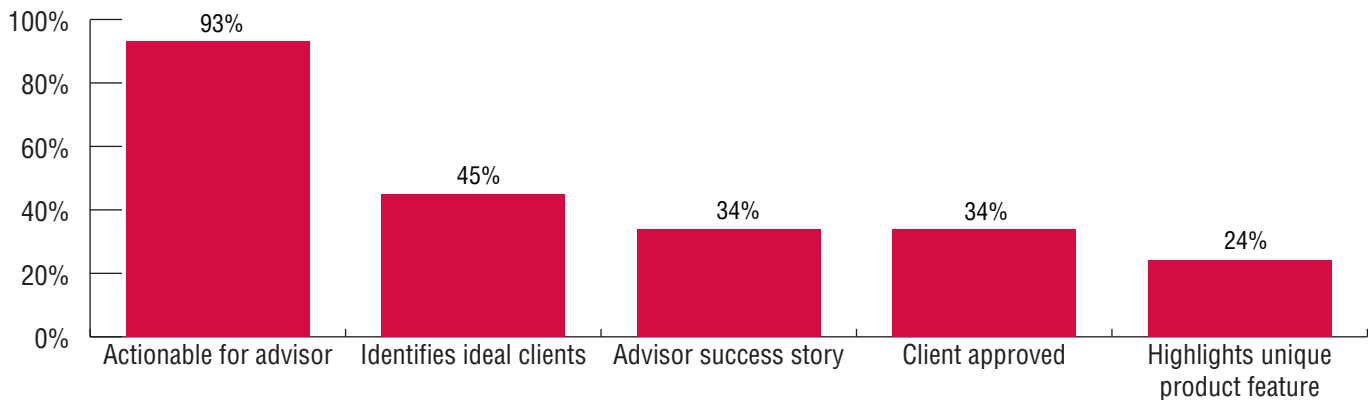


Sources: Cerulli Associates, in partnership with Investment Management Consultants Association

The majority of wholesalers (52%) rate the competitive information they receive as highly effective, while only 11% consider it to be ineffective.

**Key Implication:** It is a positive indication that asset managers are providing effective information on their competitors to wholesalers, however, there is still work to be done. **Wholesalers need to be armed with efficient, accurate information regarding what is going on outside their own product lineup, so that they can focus on product positioning and strategy.**

**Wholesalers Rate Elements of a Successful Sales Idea, 2Q 2010**

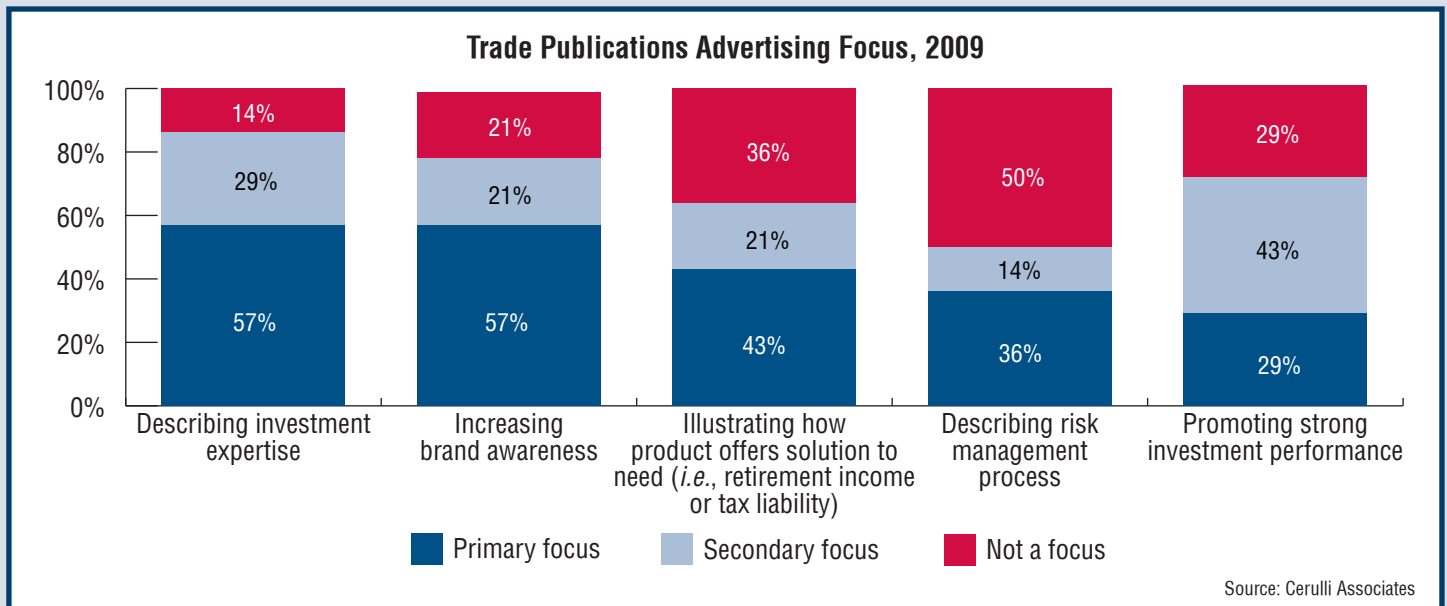


Sources: Cerulli Associates, in partnership with Investment Management Consultants Association

In order for a sales idea to be successful, nearly all surveyed wholesalers (93%) state that the idea needs to be actionable for advisors. Less than a quarter of wholesalers rated highlighting unique product features as important.

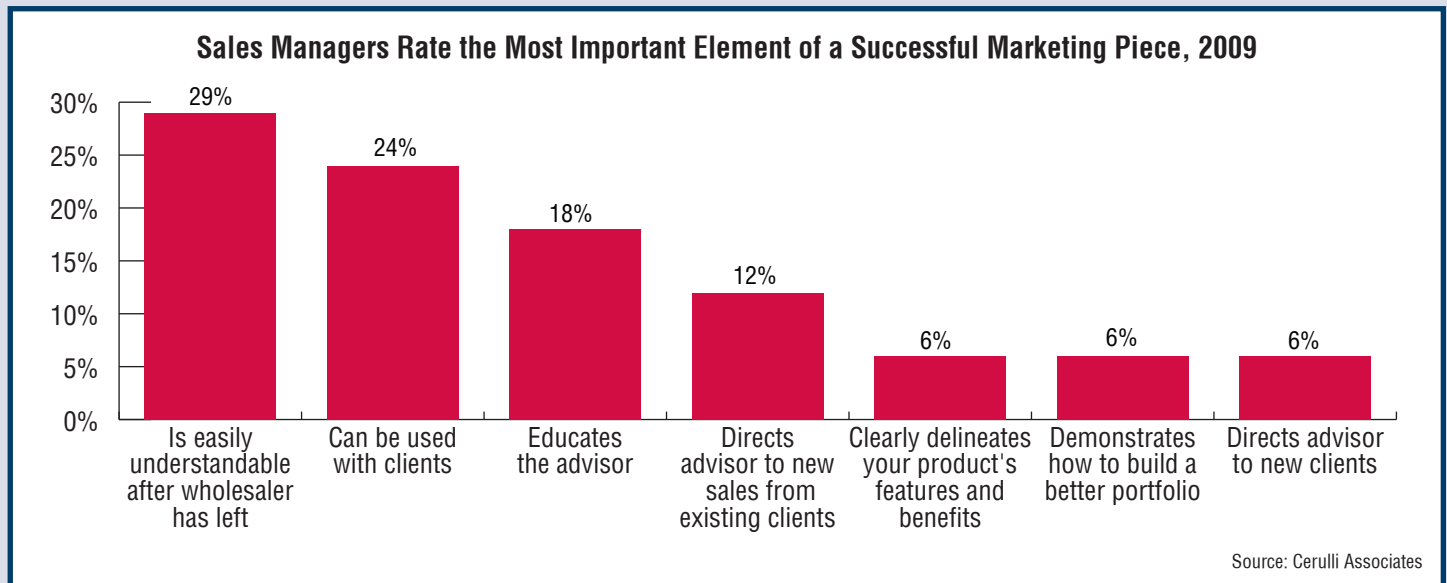
**Key Implication:** Marketing departments should communicate with the wholesalers who actually use the materials with advisors, to develop sales ideas that are actionable for advisors. **A wholesaler's first attempt to introduce a new idea to an advisor is a crucial point in the relationship. Thus, it is important that the marketing piece contain a number of scenarios showing advisors how to build their book of business.** Other topics that may be helpful to an advisor include identifying ideal clients and recommending specific actions an advisor can take in the sales process.

**Advertising and Marketing**



Describing investment expertise and increasing brand awareness are the primary focuses for trade publication advertising for 57% of asset managers. Promoting strong investment performance is the leading secondary focus.

**Key Implication:** For many managers investment expertise and brand awareness go hand-in-hand, and unsurprisingly they are the primary focus for advertising. **Advisors primarily choose an asset manager based on consistent investment style and ethical reputation, thus as the economic recovery continues, Cerulli asserts that managers with a recognizable and quality brand will find themselves with an enormous advantage.** At the same time, asset management firms burned by the financial crisis should make rebuilding their brand a priority when developing their marketing strategy.



Sales managers identify that the most important quality for a marketing piece is for it to be understandable after the advisor has met with the wholesaler. For 24% of sales managers, it is important that materials are approved for client use.

**Key Implication:** Marketing pieces can accomplish various things—from conveying important information about the firm to increasing awareness on new features. **No matter the goal, asset managers must make sure that marketing materials are easily understandable by the end-user, because if the piece is not clear to an advisor once a wholesaler leaves an office it can hamper sales efforts and detract from the ultimate success of sales meetings.**