

Margolis Advisory Group



Inside a Successful Investment Management Firm

Building a Premier Marketing, Sales and Client Relations Organization

Paper 2: Define Capabilities and Offerings, and Develop Marketing Strategy

- **Clearly defined capabilities and offerings** are a manager's core.
- Strategic marketing includes a **well-crafted plan and continuous assessments.**
- Successful firms **understand the importance of and prioritize marketing.**
- A strong marketing strategy and plan can **separate great firms from good firms.**

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Executive Summary

Inside a Successful Investment Management Firm is a series of papers that presents the process to build a premier marketing, sales and client relations team (“marketing team”), and its role and importance to a manager’s lasting success. The investment management industry rode a three-decade wave of unprecedented profitability that crashed recently, leaving the surviving managers to adjust to increased competition and leaner profit margins — the “new normal” environment. Managers that respond to this challenge with a strong marketing team, strategy and plan are better positioned to gain a foothold in the marketplace and achieve sustainable success than those that rely solely on investment capabilities.

The initial paper provides a macro-view of the process to build a team — a foundation — from which to delve deeper into the individual steps of the process. This paper, the second in the series, details the first two steps of the process:

- ▶ **Define Capabilities and Offerings**, and
- ▶ **Develop Marketing Strategy**

Disciplined yet flexible, the process is proven effective for both new and established investment management firms: to build a team or evaluate an existing one, and to develop a marketing strategy or ensure the veracity of a current one. With micro-level insight about the initial steps of the process, this paper provides tools to help managers arrive at a sound marketing strategy, which is executed through a well-constructed plan.

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PROCESS

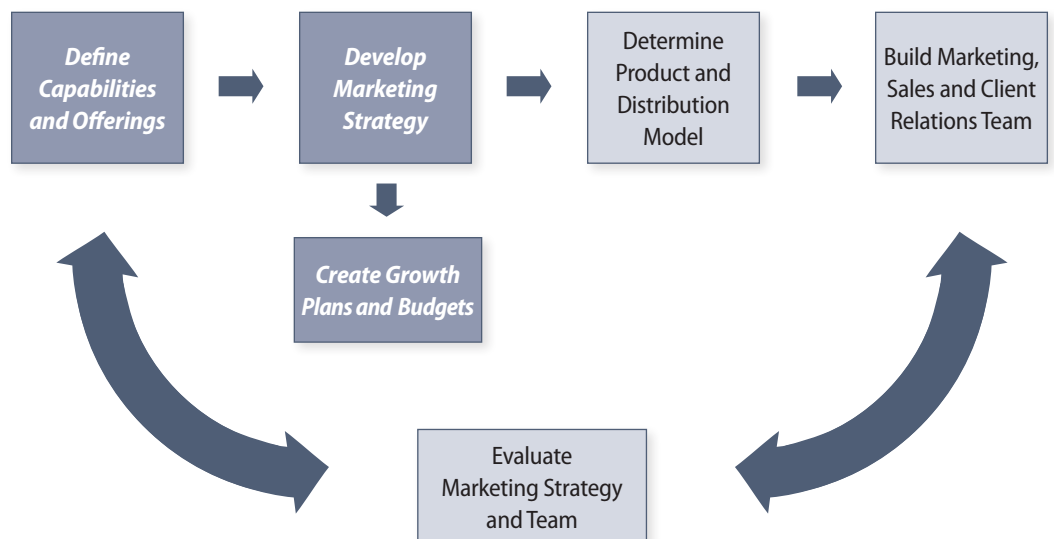
DISCIPLINED AND SYSTEMATIC

The investment management industry is crowded with managers touting their investment capabilities, philosophies and expertise. Against this competitive backdrop of firms with comparable offerings, those that rise to the top—and have staying power—are generally equipped with a premier marketing team, strategy and plan instead of simply counting on strong capabilities to speak for themselves. The days of passive marketing—the “you build it, people will come” approach—have been replaced with an environment that demands strategic marketing.

Forward-thinking firms understand that when times are difficult, marketing is more important than ever. In fact, a firm with a solid team and strategy are more likely to harness market share than its unprepared competitors. This is why a significant allocation of time, effort and resources toward reaching goals and profitability is a smart long-term business investment, which most often reaps sizeable rewards.

The process to build a team, and develop a strategy and plan is disciplined, with built-in fluidity to accommodate new and established firms. In all situations, the process serves as a logical guide driven by the realities of the firm—skills and resources—as well as stated goals and objectives as opposed to guesswork.

This paper provides detail and direction on the first two steps of the process.



DEFINE CAPABILITIES AND OFFERINGS

THE FIRM'S CORE

An investment management firm's core—investment skills, philosophy and process—is critical to its success. Managers that clearly define and embrace their capabilities and offerings are more firmly poised to accomplish established goals than those with a weak core.

Before developing its marketing strategy, and executing a plan, the firm must articulate its overall investment skills and capabilities. To do so, management must agree upon answers to seemingly basic questions. A surprising number of managers discount the importance of this exercise, assuming there is general consensus on the firm's strengths, weaknesses and direction when there may actually be dissension. A management team that can consistently describe their firm's skills and capabilities is on course to develop an effective strategy.

Questions to consider include:

- ▶ **Can we add investment value** across a number of asset classes and geographies or is our core competency more narrowly focused?
- ▶ **Equity managers:** is our strength fundamental or quantitative analysis; bottom-up stock selection or macro bets on the market?
- ▶ **Fixed income managers:** is our strength credit research, sector rotation or interest rate anticipation?
- ▶ **Hedge fund managers:** can we excel in a number of strategies or should we operate in a niche where our skills have demonstrated success?

The investment philosophy should be explicable—both inside and outside the firm. That said, communication begins inside the firm with the goal of ensuring the philosophy is understood and supported by the entire staff. In essence, the investment philosophy is glue that binds the firm. When this happens, the message can be consistently and effectively conveyed outside the firm.

A well-constructed investment process is clear, consistent and repeatable; designed to transform the philosophy into competitive investment results over time. The process should also be flexible, allowing personnel to join the firm and integrate into the team seamlessly, with no disruption in the process or adverse impact on performance.

The investment process may result in one or more investment strategies. To compete successfully in the marketplace, the strategies must stem directly from the philosophy and process of the firm, and the investment results should make sense in various investment environments; natural market cycles.

“Before developing its marketing strategy, and executing a plan, a firm must articulate its overall investment skills and capabilities.”

Let's consider an equity firm with a deep value philosophy that believes good companies not yet recognized by the market will generate strong returns over an extended timeframe. In this case, the team uses a fundamental research-oriented process, which includes various statistical measures and valuation methodologies about the company, and regular meetings with company management. This process is aimed at distinguishing intrinsic good companies that are merely underpriced from flawed companies.

Guided by this philosophy and process, the firm creates both U.S. large cap value and small cap value strategies. Historically, the team has identified good investments before the market, which has led to strong gains when the market eventually discovers these companies. Not surprising, the team's investments have lagged in environments that favor growth stocks.

Over the long-term, however, the firm has an impressive record of identifying undervalued investments, which have generated competitive gains. If the firm can maintain this performance over time, it's solidly positioned to promote its philosophy, process, and returns as consistent and repeatable, even though it may underperform in certain environments.

As this example illustrates, a firm must continuously educate the marketplace on its philosophy and style so temporary underperformance can be understood and accepted instead of cause for unnecessary concern. In this case, the firm will ultimately develop a powerful, understandable brand that can be presented and reinforced with a marketing strategy. The firm's brand—who it is and what it offers—should evoke positive thoughts in the public's mind; a credible and desirable manager.

DEVELOP MARKETING STRATEGY

WELL-CONSTRUCTED GUIDE FOR THE FIRM

While investment capabilities are the heart of an investment management firm and, undeniably important, strategic marketing can propel a firm's overall performance from good to great. Managers routinely focus considerable time to develop and refine their investment process, as they should, yet they spend far less time to develop a marketing strategy. In fact, few business strategies are more misunderstood than marketing.

Some managers view marketing as simply tactical sales—an essential part of the process—although one that provides little guidance to the strategic direction of the firm's growth. A strong marketing plan, however, is grounded firmly in a clear understanding of the firm, which is both embraced and communicated by management throughout the organization.

“Firms should capitalize on its strengths and minimize the effect of—or ideally correct—its weaknesses.”

Strategic marketing includes a thoughtfully developed marketing plan, as well as ongoing assessments of specific elements of the plan to monitor its alignment with the firm’s core competencies, results and effectiveness. Elements of the plan include:

- ▶ Firm’s overall strengths and weaknesses
- ▶ Marketplace environment
- ▶ Product growth and retention projections over various time periods
- ▶ Resource requirements to meet or exceed projections
- ▶ Risks to the success of the plan
- ▶ Sales and marketing functions

The component of the plan that addresses sales and marketing functions will be discussed in a subsequent paper.

The categories below—streamlined yet comprehensive—can serve as a guide to capture information to inform a strategic marketing plan.

WHAT	Investment menu, philosophy and process
WHO	Target market and clients, which may be organized by areas of specialty including: <ul style="list-style-type: none"> ▶ Channel: Such as institutional or intermediary ▶ Segment: Such as pension fund or insurance company ▶ Geography: Such as U.S. or Global
WHY	Competitive advantages, solution selling (identify the way investment offerings fit within the clients’ portfolio context)
HOW	Short- and long-term plans for gaining and retaining clients, and baseline assessments of key metrics

GETTING STARTED

SWOT ANALYSIS

One useful tool—and suggested starting point—to gather information necessary to create the plan is a “SWOT” analysis, which assesses the firm’s **strengths** and **weaknesses**, and evaluates the marketplace **opportunities** and **threats**. By candidly making these assessments and evaluations, management can begin to hone in on a direction for the marketing strategy. In general, firms should capitalize on its strengths and minimize the effect of—or ideally correct—its weaknesses.

For instance: A firm with strong fixed income performance, but poor fixed income client service resources might choose to capitalize on returns by enhancing client service resources. On the flip side, if performance is unfavorable, the firm should consider channeling resources to another area of the firm.

WHAT IS THE FIRM'S FOCUS?

INVESTMENT MENU, PHILOSOPHY AND PROCESS

Patience can pay large dividends in the investment industry. Eager to succeed, firms often cast a wide net, which dilutes limited resources. Generally, the most successful firms are focused and strategic, identifying investment strategies and target markets in which they have a distinct competitive edge. Managers with diverse capabilities at inception or early in the life of the firm can certainly succeed, although they face a higher risk of being ill-prepared to build and maintain their client base compared to narrowly focused firms.

In fact, firms with a single focal point—a specialization—typically make a deep footprint in the marketplace and enjoy earlier success than firms that initially offer too many products or rush expansion. Once a firm achieves a certain level of success, appropriate and deliberate expansion—if desired—can be a logical step to diversify the firm's products and client bases.

WHO IS THE FIRM TARGETING?

TARGET MARKETS AND CLIENTS

In terms of target markets, the firm must first consider the various channels then pursue those segments within the channels most likely to be receptive to its offerings. The terms "channels" and "segments" are commonly used to describe pieces of the pie—the broad market. In this paper, "channels" will describe broad slices such as institutional versus retail, while "segments" will describe finer cuts including pension funds versus endowments. Target markets and segments should be chosen based on knowledge of each market's unique investment needs and buying behaviors, and the fit of the firm's investment capabilities within the market.

Firms should link its investment strengths to associated target channels and segments. While firms can be tempted to distribute investment products across the market spectrum, it's likely that its capabilities are naturally suited to certain segments.

For example: In the past several years, the institutional channel's demand for alternative products has been concentrated in endowments. During this time, firms with strong traditional long-only equities skills weren't in the most attractive position to target endowments. (In light of the dynamic nature of the markets; however, the landscape is changing.) At all times, it's critical for managers to proactively monitor their product demand in various segments. Since both product development and sales require considerable lead times, a firm must watch and, to the best of its ability, forecast demand over a one- to three-year time period.

“An assessment of the marketplace environment is essential to determine an accurate marketing strategy.”

Marketing activities to promote the firm’s brand and capabilities are also a primary driver of success. These activities demonstrate the firm’s thought leadership and build its credibility in the marketplace, which leads to “demand pull” from potential clients, so the firm doesn’t rely entirely on “sales push.”

Thought leadership generally takes the form of white papers and speaking engagements, which should be geared toward topics that both showcase the firm’s competitive edge and reach the firm’s target markets. Success of these activities—leading directly or indirectly to new client business—should be measured so the firm can track the expenditure to effectiveness ratio.

WHY CHOOSE THE FIRM?

COMPETITIVE ADVANTAGES AND SELLING SOLUTIONS

An assessment of the marketplace environment is essential to determine an accurate marketing strategy. When a firm carves out time and dedicates resources to gather this information, the plan will more tightly align with the executives’ view of and goals for the firm. Specifically, the firm should identify and evaluate both the opportunities and threats present in the marketplace. Ideally, the firm’s strengths should correlate with marketplace opportunities to take advantage of its strong points.

In the previous fixed income manager example, if marketplace trends indicate increased demand for fixed income managers, the firm’s strong performance likely will attract new clients. Concurrently, fixed income managers new to the marketplace create competitive pressures. The established firm should then assess its positioning against those competitors, analyzing its strengths and weaknesses.

An honest SWOT analysis will direct a firm toward the investment strategies and target clients likely to maximize its potential for sustainable success. It will also provide a framework to evaluate opportunities that arise in the context of an overall strategy.

Let’s look at a firm focused on a suite of international equity products for U.S. institutional clients. This firm should pause and carefully consider expansion opportunities, such as a specialized international equity fund on an intermediary platform, before making a move. In this case, the marketing plan and SWOT analysis may lean toward a focus on institutional clients; however, the firm decides to thoughtfully balance the opportunity between its obvious benefits (additional revenue) and those less apparent costs (tangible and intangible).

These costs, which are relevant to all managers considering expansion, likely include:

- ▶ Additional resources to support the relationship;
- ▶ A specialized vehicle or product;
- ▶ Reduced focus on existing resources; and,
- ▶ Compromise to the accepted plan.

Since compelling prospects may depart from the firm's primary focus they should always be analyzed and accepted only after weighing all possible consequences—positive and negative. Depending on the outcome of the analysis, the smart decision for the firm may be to take advantage of this opportunity, but they should proceed only after assessing the projected costs and benefits.

The strategy and plan must be informed by the firm's competitive advantages—the investment capabilities, and other differentiating characteristics, that set it apart from competitors. Importantly, the manager must know how their capabilities add value to clients within their broad portfolio objectives. Armed with this understanding, the firm can tailor its investment offerings to the most appropriate clients.

HOW TO MEASURE THE FIRM'S SUCCESS? ASSESSMENT, PLANS AND BUDGETS

The plan must include baseline assessments of key metrics that are measured regularly to keep the firm on the desired trajectory. Firms need to routinely assess results of the marketing efforts against the plan to confirm the veracity of the strategy, making necessary and timely adjustments. A truthful assessment will include risk factors, such as poor investment performance, personnel turnover and changing market conditions that may cause results to fall short of projections.

A sound plan will include necessary guideposts: expectations based on careful consideration of a firm's strengths and weaknesses, and an assessment of marketplace opportunities and threats. These guideposts allow executives to insert current information into the context of an overall marketing plan. That said, executives are inundated with a variety of data points—emanating from internal and external sources—therefore they must learn to distinguish between marketplace noise and relevant data.

Finally, growth plans and budgets are an integral part of a marketing plan.

GROWTH PLANS

Growth plans are multifaceted: strategic and tactical; directional not precise. The strategic component of the plan takes a long-term view, while the tactical side is real-time oriented. At the same time, the directional nature of the plan is necessary to accommodate constant shifts in the marketplace.

The overall plan should incorporate:

- ▶ **Gross and net sales projections** based on marketing and sales across products and segments.
- ▶ **Realistic scenarios**, from stellar to grim performance, which prepare executives for a range of potential outcomes.

“The strategic and tactical plans allow for a far- and close-range picture of the business.”

- ▶ **Resources for successful execution**, with an eye toward marketing, sales, consultant relations, client relations, and product development and management. Specifying resources allows management to track results of the plan against actual and planned resources.

Combined, the strategic and tactical plans allow for a far- and close-range picture of the business, specifically:

Strategic plans take a long-term view on issues, such as:

- ▶ Client focus based on investment capabilities, and
- ▶ Resource requirements to accommodate expected expansion of product offerings.

Tactical plans are real-time oriented, looking at:

- ▶ Market conditions,
- ▶ Environment’s affect on the firm’s competitive positioning,
- ▶ Current year’s sales projections by product and segment,
- ▶ Near-term resource gaps based on the firm’s structure, and growth trends and projections; and,
- ▶ Marketing tools and techniques to be implemented in current year.

For new firms, the strategic plan needs to cover a relatively long time horizon to allow necessary time for the business to achieve profitability, typically five to ten years. The tactical component of the plan should consider a shorter time period of one to three years.

Plans for mature firms are generally shorter term, with the strategic plan in the three- to five-year range, and the tactical plan covering one year or less.

In terms of measurements, projections should be frequently compared to actual results to understand the accuracy of the anticipated growth. If results deviate from projections, management should try to pinpoint the reasons for the deviation, which might include investment performance, product and brand positioning, and changing demand and sales skills.

BUDGETS

Annual budgets—typically allocated between compensation and non-compensation expenses—are incorporated into the growth plans.

Compensation Expenses

Compensation arrangements among staff can—and often will—vary based on job scope and responsibility.

Compensation for sales personnel is divided between fixed and variable components. The variable portion is either formulaic, as in straight commission or subjective, or a blend of the two. In any case, the variable compensation is determined largely by actual assets raised. Variable compensation for client service and consultant relations personnel is generally based on stated success hurdles.

The compensation structures should include incentives to reward the team for functioning both effectively and cohesively, fueling the firm's success.

Non-Compensation Expenses

Non-compensation expenses for marketing and sales functions typically include travel and entertainment, promotion, advertising, materials, sponsorships and conferences. A properly balanced budget, which includes both compensation and non-compensation, can leverage direct sales efforts.

CONCLUSION

As the dust from an 18-month financial crisis settles, a new and challenging investment industry landscape is emerging. Gone are the days of managers succeeding solely on solid performance. Today, firms that survive—and thrive—understand the importance of and prioritize strategic marketing. Beyond this basic understanding, they are committed to do the necessary work, including allocation of resources, to develop a marketing team, strategy and plan designed to set them apart from the competition.

Strategic marketing—as articulated in a well-crafted marketing plan—is essential to the lasting success of an investment management firm. The process to develop a marketing strategy and a plan is systematic yet fluid, allowing new and established managers at various stages in the process to engage in the steps that are most beneficial in advancing their firm.

The bottom line: firms that succeed in this environment will be guided by thoughtful strategic marketing, which is continuously reviewed—and adjusted—to ensure its accuracy in the context of market conditions and the firm's overall market position. ■

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About Margolis Advisory Group

We work exclusively with the investment management industry to enhance sales growth and retention through people, product and process improvements and practical solutions.

With extensive industry experience raising billions of dollars for investment firms, from start-ups to large organizations, we work with executive management teams, and sales and marketing staff to achieve desired results.

While our expertise assists investment managers in thinking through problems and analyzing the marketplace, our clients benefit most when we help them in translating that thinking and analysis into execution.

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