

# MFA Reporter

October 2003

Reporting on issues for investment professionals in futures, hedge funds and other alternative investments

## Service Provider Series: Choosing a Marketer

By Steven Rubenstein, President, Arrow Partners, Inc.

### **Buy or Build? Strategies for Investment Managers to Gather Substantial Assets**

What do Tiger Management, AIG, Cerberus, Forstmann Little, Oaktree Capital, Clayton Dubiler & Rice, Bowman Capital, MD Sass, Deutsche Bank and other leading investment managers have in common? Each of them successfully employed independent marketing firms to raise substantial assets.

### **A Proven Alternative to Lowering Asset Acquisition Costs without Compromising Results**

In today's competitive environment, the use of independent sales and marketing resources has become a widely accepted, proven alternative to relying solely on an internal sales team. These resources are known by several names including:

- third party marketer,
- placement agent,
- independent distributor,
- contract marketer,
- freelance salesperson,
- professional capital raiser.

These groups can cost-effectively raise assets for non-competing strategies with an incentive-based compensation structure, either as a supplement to existing sales resources or as a total outsource.

Bottom line, the business model for independent marketing firms is well-established. Just think of the "manufacturer's representative" where the rep that possesses specialized expertise and relationships is retained to sell third-party products. In the case of asset management, a marketing firm represents a range of non-competing asset classes or products to a targeted group of investors.

Choosing the right marketing structure to ensure success begins with:

- A set of consistent principles including defined goals and expectations,
- A dedicated professional effort with clear accountability and stated objectives,
- A realistic financial and resource commitment.

### **What's Behind the Recent Rapid Growth in the Number and Use of Marketing Firms?**

Perhaps the most frequently cited reason for the recent growth in marketing firms is the dramatic proliferation of newly-formed investment management firms. A large percentage of these firms were started by experienced investment professionals who prefer to spend their time doing what they do best – investing.

This focus on core competency has caused an equally strong growth rate in the need and formation of marketing firms. By some estimates, the number of marketing firms



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has grown from fewer than 20 firms in 1990 to more than 100 today. Versus an internal sales person, marketing firms typically offer a more dynamic and cost-effective solution, utilizing multiple sales professionals with established coverage and relationships across a wider spectrum of markets worldwide.

This is certain; an increasingly competitive market landscape for gathering assets has increased the need for an equally dedicated, professional sales effort. The viability and acceptance of third-party marketing as an alternative or supplement to internal sales programs will likely continue to grow.

### ***Industry Trends: Growing Specialization, Increased Regulation and Barriers to Entry***

A few of the more recent trends in the marketing business are the growing specialization, more stringent regulations and higher overall standards and best practices. A successful marketing firm is more than just a group of opportunistic road warriors. The firm should be responsible for an entire segment of the capital raising process with full accountability for all aspects of the defined mandate. In addition, the levels of regulatory compliance and disclosures are constantly changing and becoming more complex. Looking ahead, items such as infrastructure, track record and areas of expertise should become measurable areas of differentiation.



*An important point is that the standards and measures of success are the same whether the investment manager elects to build a professional sales program internally or utilize an external firm.*

### ***Mutual Evaluation Process Between Marketing Firms and Managers***

A starting point in evaluating marketing firms is to understand their expertise and focus. One can begin to segment marketing firms by:

- Product specialization (traditional long-only asset classes vs. alternative strategies including hedge funds and private equity),

- Investor base concentration (institutional including corporate and public pension funds, endowments and foundations vs. high-net-worth investors),
- Geographic coverage (U.S., European, Middle East and Far East).

As with all service providers, there is a range of products and services that a manager can take advantage of when choosing. It is the job of the buyer to determine which firm offers the best match for their needs. Once you identify the firms with the appropriate expertise and focus, the most important determinant of any successful asset gathering campaign is a full commitment by both the manager and marketer to work together as partners.

As hard as the manager works to choose its sales and marketing partner, an experienced marketer similarly evaluates each manager that it is considering representing. In addition to the obvious product credentials necessary for strong potential growth, there must also be a demonstrated commitment by the principals to *building their business*. Because most marketing firms represent a limited number of non-competing strategies, there is nothing more

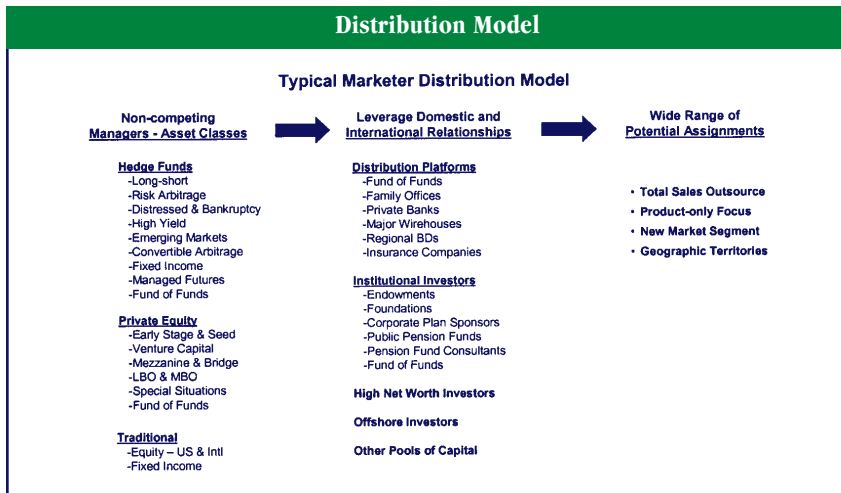
important than selecting the right manager. Utilizing collective industry experience, the marketer will more specifically evaluate each manager in the following areas:

- definable product advantages,
- market demand for specific asset class and product,
- investment performance,
- senior management leadership, and
- investment team continuity.

This evaluation process is critical in building the foundation for the relationship as well as setting the framework and expectations for effective distribution strategies and a successful increase in sales.



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access to, in order to present a new manager's offering. This enables them to focus on calling on the best prospective clients for a manager. Traditionally, marketing firms are not places for junior level salespeople to *learn the ropes* and are not sales training grounds.

The following Exhibits, on page 11, outline the typical structure and process.

Some initial questions to help determine the manager's appropriate path include:

- What is the sales and marketing budget?
- Are there multiple products to represent?
- What is the capacity of each product?
- What are the appropriate target markets?
- Is there precedent for outsourcing non-core competencies?

Of course, there is often no clear cut answer to these important questions; however, establishing a dedicated sales and marketing effort is an essential first step. While it is common practice today to outsource *non-investment functions* to independent experts (fund administration, accounting, auditing, risk management, etc.), more fund managers are implementing marketing relationships as an efficient strategy, getting access to proven

sales people with lower fixed overhead costs.

**Sales Cycle Management**

	Phase One First 30 days	Phase Two Next 180 days	Phase Three Days 210-
<b>Objective</b>	-Establish the foundation to "win" - Create story - Solidify marketing infrastructure - Confirm distribution strategy	-Planting seeds and filling pipeline - Populating databases - Fine tune story - Initial meetings	-Raising Money - Gain consultant approval - Get onto short lists - Win new business
<b>Marketer Responsibilities</b>	-Get in position to gather assets - Develop sales materials - Select databases to populate - Prioritize prospects - Create specific contact plan - Establish email communication - Set up dress rehearsal meetings - Establish sales tracking process	-Get onto "radar screens" - Complete database information - Start quarterly performance updates - Contact target prospects - Set up initial meetings - Selectively complete RFIs and RFPs	-Due diligence meetings - Schedule visits at manager - Continue new prospect meetings - Manage all prospect specific follow-up - Participate in final presentations - Ongoing client interaction
<b>Manager Responsibilities</b>	-AIMR compliance, if necessary -Information transfer to marketer - Communicate story and process - Appoint marketing point person	-Initial contact with potential investors -Broad meeting participation -Timely response to info. requests -Produce RFI's/RFP's	-Targeted participation in meetings -Client service

### What is the Typical Business and Distribution Model for Marketing Firms?

While there is not one *correct model*, there are a few consistent themes to predict success. The more established firms typically have three or more experienced senior-level salespeople with diverse backgrounds, often having worked for larger firms in their past. The principals of the firm are hands-on, participating directly in the selling process themselves. In addition, there are resources available that assist in administrative functions such as completing Requests for Proposals (RFP), questionnaires and submitting information to the databases and consultants. And, most importantly, they have created a following amongst leading institutional or high-net-worth investors whom they can readily gain

### Getting a Deal Done — Aligning Objectives

Contract terms are negotiated on a case-by-case basis to reflect client-specific needs. Each arrangement should be designed to minimize the manager's fixed costs and establish an incentive compensation package aligned with the mutual objective of increasing assets under management. Typical agreements combine a retainer to offset expenses, as well as a percentage of revenues or assets for new business generated by the marketer. Other negotiated items include levels of capacity, options on future funds and new product launches, and term and termination provisions.



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### **Conclusion: Five Important Questions for an Investment Manager to Ask a Marketing Firm**

In summary, there are a few *litmus test* questions that should help the investment manager clarify their thinking when considering the use of a marketing firm. An important point to reiterate is that the standards and measures of success are the same whether the investment manager elects to build a professional sales program internally or utilize an external firm. The bottom line is goals, expectations, financial commitment and resource support must be aligned to be successful.

Is the manager firmly committed to growing the asset base and supporting the effort?

- The manager needs to support the marketer with a time commitment, financial investment and resource allocation.

Is the manager willing to invest the same time and effort in choosing a marketer as they do when choosing investments in their portfolios?

- Making the wrong decision is costly, and makes future success even more difficult and challenging.

Would the manager be willing to hire the marketing firms' salespeople as internal salespeople?

- Be sure to maintain the same level of acceptable quality in terms of the people and accountability of results. Personal chemistry is often the deciding factor when choosing a marketer.

What is the marketing firm's track record of success and failure in terms of raising money as an independent marketer?

- This is often overlooked. It is however critically important because raising money as an independent marketer requires unique and different skills than being employed at a large multi-product firm.

Do I want this marketer representing my #1 competitor during a finals presentation vs. our firm?

- Fear of loss is a strong motivator. ■

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