Choosing a Marketer

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To outsource or not to outsource marketing? That was the question for Mary Lisanti, President of AH Lisanti Capital Growth, when she started her small-cap growth firm. As a boutique manager with an investment-centric focus, she possessed the necessary experience and credentials to manage assets for large institutional clients, but felt less certain when it came to marketing. Ensconced in the business of managing assets, Lisanti turned to Arrow Partners, an experienced third-party marketing firm. "Arrow is focused 24/7 on increasing our assets under management," Lisanti said. "They manage the entire sales process, execute a well designed strategy and have put us in position to compete for new accounts and meet our growth goals." added Lisanti. Since outsourcing its marketing operations to Arrow, AH Lisanti has been selected to participate in several emerging manager programs and is well positioned for broader institutional mandates.

While it is common practice today to outsource non-investment functions-fund administration, accounting, auditing, risk management, and so on -- more fund managers are implementing marketing relationships as an efficient strategy. For smaller firms, going with an independent expert can help them gain access to proven salespeople, refine their sales "story," and lower overhead costs.

A Proven Alternative to Lowering Asset Acquisition Costs without Compromising Results

With competition keen among managers, effective marketing is key to winning assets. Third-party marketing (3PM) groups can cost effectively raise assets for non-competing strategies, with a lower fixed budget combined with an incentive-based compensation. The business model for independent marketing firms is well established. Just think of the "manufacturer's representative," who possesses specialized expertise and relationships and is retained to sell third-party products. "Today, members of The Third Party Marketing Association (www.3pm.org) have collectively raised more than $50 billion for their clients and have established relationships with over 100 consultants and financial intermediaries," says Steven Rubenstein, past President of the Association. Managers must decide if they want to outsource this function to a third-party marketing firm or bring the skill set in-house. The structure is typically a total sales outsource but can, in the right situation, supplement existing sales resources.

Choosing the right marketing structure, whether internal or external, begins with the same criteria:

- A dedicated professional effort,
- Consistent principles, including defined goals and expectations, and
- 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 have been started by experienced investment professionals who prefer to spend their time doing what they do best: investing. This focus on core competency has caused a commensurately strong demand for marketing firms. By some estimates, the number of established marketing firms has grown from fewer than 20 in 1990 to greater than 100 today. 3PM firms, compared to hiring an internal salesperson, can offer a more dynamic approach, utilizing multiple sales professionals with established coverage and relationships across a wider spectrum of markets worldwide. These factors -- growing investor demand for emerging managers; the financial and resource benefit to managers; and the widespread acceptance of outsourcing non-core competencies -- will likely sustain the viability of third-party marketing.

Industry Trends: Growing Specialization, Increased Regulation & Barriers to Entry

A few of the more recent trends affecting the marketing business are the growing specialization, well documented and heightened scrutiny by regulators on sales practices within the hedge fund history and higher overall standards and best practices. A successful marketing firm is more than just a group of

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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 in choosing 3PM firms.

Mutual Evaluation Process between Marketing Firms & 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 (for example, traditional long-only asset classes versus alternative strategies including hedge funds and private equity)
- Investor-base concentration (institutional clients such as corporate and public pension

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funds, endowments and foundations versus high-net-worth (HNW) investors)
- Geographic coverage (regional focus, such as U.S., Europe, the Middle or Far East, or developing versus developed markets).

A manager can take advantage of a range of products and services. He or she must determine which firm offers the best match for their needs in terms of expertise and focus. Once that happens, the Number One determinant of any successful asset-gathering campaign is a full commitment by both the manager and marketer to work together as partners.

Mutual compatibility is key. An experienced marketer will evaluate any manager as thoroughly as they themselves are evaluated. In addition to the obvious product credentials necessary for strong 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 its collective industry experience, a marketer will usually evaluate managers in the following areas:

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

What is the typical business & distribution model for marketing firms?

While there is not one "correct" model, there are a few consistent themes that can help predict success. More established 3PM firms typically have two or more experienced salespeople with diverse backgrounds, often having worked for larger firms in the past. The principals of the firm are hands-on, participating directly in the selling process themselves. In addition, they will have resources available to assist in administrative functions such as completing Requests-for-Proposals (RFPs) or questionnaires, and submitting information to databases and consultants. Most importantly, they will have created a following amongst leading institutional or HNW investors to whom they can readily gain access in order to present a new manager's offering. Traditionally, 3PM firms hire only senior-level representatives. These are typically not training grounds for junior-level salespeople to "learn the ropes."

Some initial questions marketers may ask to help determine the manager's compatibility 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?

For most marketers, size is only one factor when considering a partnership. All firms have hurdles that need to be overcome. The objective for the marketer is to evaluate the entire situation and determine realistic strategies, tactics and time frames based on their expertise and relationships to meet overall growth expectations.

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 settle on the manager's fixed costs and establish an incentive compensation package aligned with the mutual objective of increasing assets under management. Typical agreements stipulate a retainer to offset expenses, in addition to a percentage of revenues or assets for new business generated by the marketer.

Other negotiated items include levels of capacity, options on future funds or new product launches, as well as term and termination provisions.

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

When considering the use of a marketing firm, there are a few "litmus test" questions that investment managers should ask themselves to help clarify their thinking. They apply whether the investment manager elects to build a professional sales program internally or utilizes an external firm. Ultimately, the most important consideration is that goals, expectations, financial commitment and resource support must be aligned to be successful.

1. Am I 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.

2. Am I willing to invest the same time and effort in choosing a marketer as I do when choosing investments for my portfolios?

- A wrong decision can be costly, making future success even more difficult and challenging to achieve.

3. Would I be willing to hire the marketing firms' salespeople as my own 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.

4. How do I measure the success of an independent firm versus internal resources? The goals, expectations and oversight are no different. Like an internal employee, the 3PM works for the manager and thus needs to have clearly defined, measurable targets and expectations. The business today is global, and with advances in technology, even smaller firms often have satellite offices. That makes it particularly important to determine the mode of communication in advance so that everything is tracked and there are never any surprises for either party.

5. What is the independent marketing firm's track record of success and failure in terms of raising money?

- 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-service firm.

6. Do I want this marketer representing my #1 competitor during a final presentation against our firm?

- Fear of loss is a strong motivator.

Finally, emerging managers might wonder if they're too small to consider third-party marketing, but it's never too early to start. In fact, many clients are looking for smaller, innovative firms in which to invest. Professional marketers may provide a bridge.

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