SMART SHOPPER

A new feature from Emerging Manager Monthly, Smart Shopper will ask experts in different fields to provide insight into what issues managers should be aware of and also what questions they should ask themselves so they can be a "Smart Shopper."

The five most important decisions and critical issues that need to be resolved for an investment manager and a 3PM to form a mutually beneficial relationship are also terms which need to be included in the manager-3PM agreement.

1. The structure of the 3PM relationship depends on many factors, including product capacity, the time required to realistically leverage the opportunity and renewal terms, including conditions describing how the parties unwind the relationship if one or both decide that it is not working. With full consideration of these issues, all parties need to decide on:

- How many years should the agreement run?
- How and when can the agreement be renewed? Is renewal automatic or results-driven?
- What are the conditions for early termination? What are the advantages to having a one time option vs. event triggered termination?
- Should the agreement include an option on future products and offerings?

2. The scope of the 3PM relationship needs to designate specific responsibilities and accountability to both the investment manager and 3PM. The agreement should include measurable goals and expected results encompassing the following questions:

- Does the marketing strategy require outsourcing all sales and marketing functions, or will the 3PM have a partial assignment?
- Is the manager marketing all products or select products? Which products are marketable?
- How important is two-way exclusivity (no competing products or 3PMs)?
- What is the firm's capacity by product and fee level?
- Does the manager have a 'protected list' of existing clients & prospects?
- What is the portfolio manager's time commitment for travel?
- Can the 3PM utilize sub-agents?

3. Sales and marketing support services can cover a wide range of functions which are essential to a successful campaign; they are the foundation for the firm's recognition in the marketplace and marketing strategy implementation. To achieve results, assignment of duties must be based on expertise and given priority. These services include:

- Sales management and results tracking to continuously monitor the marketing strategy and adjust as necessary
- Development of marketing materials and sales kit to establish the firm's image and brand the product
- Accurate and effective RFP production to gain visibility and win searches
- Database population and ongoing maintenance to gain product recognition and be competitive in the marketplace
- Conference attendance and continuous review of industry publications and news articles to monitor the marketplace and product niche
- Attribution analysis (holdings & returns based) and peer group analysis to quantify successful investment strategies and processes
- Client service and retention

4. The financial commitment from the investment manager can be tailored to their current situation through the structure of the retainer, expense and commissions payments. Generally, the 3PM sees the manager's investment in the relationship as commensurate with their willingness to share the costs and have "skin in the game". Manager's should have a large enough financial commitment that they are well motivated to fully participate in the marketing strategy. The 3PM in return provides exclusivity, early cost savings that can be reinvested back into the business and success oriented performance based fees. The agreement's financial terms can include:

- Comprehensive fixed budget (paid quarterly or monthly)
- Quarterly retainer plus actual expenses
- Possible draw against future commissions
- Commission schedule

Third Party Marketing

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	Suggested 3PM Agreement Terms	Important Considerations
Duration Structure	• Length of initial commitment • Renewal • Termination • Option on future products and offerings	• Long-term continuity of story • Strategic business partner vs. hired gun • Realistic time to leverage opportunity • How to unwind if "broken"
Scope	• Product coverage • Exclusivity • Capacity • Protected lists • Portfolio manager time commitment • 3PM subagent option	• Clear accountability and roles • Measurable expectations and results • Identify potential conflicts of interest • No surprises
Support Services	• Sales management and tracking • Marketing and sales materials • RFP production • Database participation • Conference attendance and industry updates • Attribution and peer group analysis • Client Service and retention	• Focus resources on areas of expertise • Support cannot be part-time or secondary to other responsibilities • Define the firm's image and brand • Continuously track product niche and market • Deliver consistent messages and materials
Financial Commitment (Retainer, expenses & commissions)	• Budget • Retainer • Draw from future commissions • Commission schedule	• Demonstrated financial commitment • Should not cause financial hardship to manager • Manager needs to share in costs • Early cost savings for manager's investment needs • Success-oriented performance based fees
Sales Accountability	• Regular and standard reporting • Formal rating system for prospect pipeline • Assignment of key point persons • Timelines for marketing projects and manager approval	• Appropriate information to monitor progress without micro-managing • Each party focuses on areas of expertise • Measure and track success • Transparency

- Commission schedule
- Percentage – constant vs. declining ladder
- Negotiated participation for pre-existing prospects
- Length of payout – perpetual vs. number of years

5. Sales accountability is essential to the measurement of the 3PM's success. The 3PM should be willing to give the investment manager enough information to monitor their progress, without micromanaging. Each partner in the agreement needs to focus on their area of expertise to achieve the shared goal of increased assets under management. Regular communication should include:

- Formal reports at an agreed upon frequency: annually, quarterly or monthly
- Established methods of reporting: email, site visit, phone
- Records of topics covered such as number of meetings and calls, and assets raised
- A formal rating system for the prospect pipeline
- Assignment of key point person within the investment management firm and 3PM
- Turnaround time for manager approval on marketing issues

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