

Tips from the Trenches: A Handy Guide for Future Third Party Marketers

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So you want to be a Third Party Marketer? Perhaps you heard the story about a New York-based placement agent who earned commissions exceeding \$10 million during each of the past three years from selling hedge funds to institutional investors. Maybe you attended a recent emerging managers' conference and witnessed 18 recently formed investment management firms announce their intention to significantly increase their sales and marketing efforts. Or do you know the one-person 3PM firm that still gets paid several hundred thousand dollars per month on new business they helped place over five years ago?

Are you thinking that the third party marketing business might be right for you? Before answering "yes," here are some things to consider before venturing into the business. Several established third party marketing firms give advice and insights to a new 3PM firm.

1. **Think long-term and be properly capitalized.** It takes most third party marketing firms several years before becoming profitable, primarily due to the initial start-up costs and the time lag involved in incentive compensation. "While your business may be fortunate to get to a profit level during year 1 or 2", says Bob King of King Associates, "I would recommend having on-hand at least 18 months to two years worth of financial resources to provide you with adequate time to grow the foundation of your business." King adds, "One of the most common frustrations of a third party marketer during the early years is watching the momentum of your business grow and feeling the pressures of monthly fixed expenses."
2. Proper deal structure is critical to achieve long-term success. Typically the correct combination of retainer, expense budget, commission schedule and manager marketing support form the basis of a successful deal. Insist on a written contract and retain an experienced attorney to review it before signing. Do not hesitate to call an experienced 3PM firm to ask for a referral for counsel. Under no circumstances should you agree to "handshake deals" because even with the best intentions, things change. This is not about trust. It's just Business 101. You work too hard to jeopardize your relationships and potential long-term revenue streams with drawn out negotiations or legal proceedings. Also, resist, if possible, shorter-term engagements of (6-12 months). "It takes time to fill the pipeline and close deals. A money manager who does not understand the process or possess the required level of patience is a major red flag," said Ron Oldenkamp of Genesis Marketing Group.
3. Hire experienced service providers. Invest in experienced legal counsel and other professional service providers from the start. Don't cut corners. Spend the necessary time to interview these firms. Ask for references. Be sure they have direct experience in the investment management business. Making the wrong choice can and will cost much more money and time in the long run. Also, the ever-changing investment regulatory environment requires that you maintain a knowledgeable and current source for practical advice and guidance to manage your business. You need your counsel to be out in front of the issues, not developing his knowledge at your business' expense.
4. Closely monitor your expenses. Avoid high fixed monthly expenses. Your ultimate economic goal is to maximize net income to your firm. Wisely manage

your funds because the more money you can allocate to asset-gathering activities the better. “Forget about first-class airline tickets or staying at the Ritz. Being resourceful goes a long way”, says Andrew Schaffernoth of Chesapeake Investment Marketing & Advisory Group. “The days of unlimited expense accounts and submitting dozens of pieces of stapled expense reports to an anonymous controller are in the past. You need to recognize what benefit you are receiving for each dollar spent. Coach class is fine and using internet resources have saved me thousands of dollars without sacrificing quality!”

5. Maintain high standards when selecting managers. Bill Hunnicutt of Hunnicutt & Company advises "You may receive aggressive and seemingly lucrative offers that will be difficult to refuse, especially when starting out. However, if you have any serious doubts about the manager, then walk away because it will pay huge rewards in the long run. The quality of the manager you represent reflects on you. One due diligence question I always ask myself is: "Would I invest my personal money with this manager"?"
6. Resist the temptation to add too many managers too quickly. During their first few years in business, many newer firms will spend a disproportionate amount of time-pursuing managers. Experienced 3PM firms will note that the quality of managers is always more important than quantity. “The economics of one or two successful asset-gathering campaigns significantly out-

weighs having five or six retainer-paying clients with only marginal success raising assets. Do the math!” explains Ken Rogers of Arrow Partners. Additionally, there is a life cycle to each assignment, and you ideally want to have manager relationships in different stages. “Because of the ramp-up period, it is our experience that it is better to stagger new assignments by at least 6-9 months.” adds Rogers.

7. Referrals are highly productive sources of manager discovery. While electronic industry databases and manager directories provide the building blocks of several firms’ marketing efforts, they tend to be of limited value when searching for potential managers. “Running quantitative screens for a small cap manager with top quartile performance during the past five years with capacity for growth is not going to be an efficient use of your time. Anyone can run that screen.” explained Carol Kolakowski of MarketLink Associates. “I have had great success uncovering managers through referrals from other 3PM members as well as referrals from consultants and plan sponsors.” she added.
8. Stay focused on your core strengths and relationships. Identify your best investor and consulting relationships, and develop an effective marketing plan to best capitalize on them. Prioritize your product, investor and geographic focus as ways to differentiate your firm. Some of your choices include:

- a. long-only vs. hedge funds and private equity assignments
- b. consultants vs. direct calling on institutional investors;
- c. how to approach financial intermediaries as well as the high-net-worth and taxable investor.

“If you have spent most of your career selling to the U.S. institutional marketplace, it’s important to ask why you might go to the family office conference in Europe. Concentrate your efforts and stick to what you know best.” said Rich Murphy of North Bridge Capital.

9. Consider partnering with an established 3PM firm. Many 3PM firms are willing to help you avoid the mistakes and pitfalls they experienced when opening their doors. Some established firms will joint venture with a newer firm via a sub-agent selling agreement as an effective method to broaden coverage and increase exposure for a specific manager assignment. The benefit to the new 3PM firm is to quickly “hit the road” with strong products while maintaining relationships in the marketplace and providing opportunities for quick victories that will enhance credibility and position for new manager assignments.

Remember, these are only a few suggestions from a group of established 3PM firms. While each of the firms quoted has their own approach and style, the common observation is that there is no better teacher than experience.

Get out there, have fun and good luck!