Passports to success

Commentary Cross-Border Distribution

Fernand Schoppig presents insights into asset managers' strategies for international marketing from FS Associates' survey 'Cross-Border Distribution of Asset Management Services 2010'

In 2005, FS Associates conducted a survey focusing on foreign sales efforts by asset managers. The success of that survey led us to conduct a similar analysis a few months ago. In total, 130 firms from all five continents participated in the survey. The majority of them were US and Europe-based.

We analysed the marketing strategies applied by a select number of money managers in the US and in Europe to gain a better understanding of how they marketed their capabilities outside of their home country, and we were able to gather valuable information about their distribution methodologies. Which countries were perceived as the most attractive ones for gathering business? What were the best strategies for successful business development outside the home country? Should the managers go it alone, or co-operate with local entities with name recognition that might help them gain more traction and assets? And, if so, should this co-operation consist of a loose alliance or a formal joint venture?

The objective of the survey was to focus on asset management firms with a centralised manufacturing structure. We deliberately decided to de-emphasise very large money managers with a truly global presence in term of running assets as well as selling, since these firms are really multi-product, multi-marketing focused, and their issues as well as their concerns pertaining to cross border marketing are clearly different from the ones experienced by managers with a centralised production structure. Only three managers in the survey were among the 25 largest as stated in IPE's Top 400 Asset Managers 2009.

Contrary to conventional 'size matters' wisdom, the outcome of our survey proves that the magnitude of assets managed is not strongly correlated to cross-border marketing activities, per se. There are many firms managing less than $10bn where foreign clients make up around 15% of the investor base, and in some cases this represents half of the total assets under management.

As part of the assessment of the participants, we asked them to identify the strengths and weaknesses of their organisations. As might have been expected, the vast majority of asset managers highlighted their investment management capabilities as major strengths. Well-qualified investment professionals were cited by the majority of managers as the leading strong point. Second in line was a distinguishing investment approach as characterised by investment philosophy and process. These aspects were mentioned as a major strength by all managers.

For the third most mentioned attribute – strong performance across all products – there were clear regional differences in the responses. Only half of the US-based managers cited performance across all products as a key strength compared with two-thirds of European managers and 75% of managers in Asia. In our 2005 survey, US-based managers were more inclined to tout their strong investment performance than their European counterparts. The reason for this sea-change is hard to pinpoint. Has the turmoil experienced in 2008 chastened US money managers? Has the continuous mushrooming of independent boutiques in Europe led to an overweighting of their capabilities as managers?

Less than 25% of the participants overall mentioned strategic issues such as succession planning, business vision, branding and global reach as differentiators. However, a greater number of US firms selected skills that have more to do with business acumen and managerial considerations.

Asset managers' descriptions of their weaknesses bear close resemblance to those in our 2005 survey. Across size and geography the participants unanimously selected access to adequate distribution in some markets as the main weakness, with close to 80% choosing this factor. The degree of unanimity was almost identical in the US, Europe and Asia, albeit selected a bit less by the very large firms (>$100bn) where only two-thirds of the firms chose this item. The second most cited weakness was inadequate distribution channels – in other words, even where market penetration existed, the necessary channels were not optimal. Insufficient brand recognition was also cited across the board, although the largest firms are a bit less concerned.

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An essential prerequisite to successfully raising funds from cross-border activities is the selection of the most appropriate asset-gathering strategies and their methodical execution. These marketing strategies can essentially be divided into two categories. There are a number of options which are easy to establish and do not require a strong capital commitment. Should these strategies not work out, they can easily be abandoned. The consequence of bailing out may carry reputational risks for the organisation, but also allows for easy dismantling. Marketing abroad from the home office, working with gatekeepers such as consultants or looking to hire financial intermediaries are just a few of the asset-raising strategies that fall into this area.

The other asset-gathering methodologies – such as opening local marketing offices and establishing strategic alliances – require a much stronger strategic business commitment. The structure to establish them is more complicated, the initial set-up costs are higher and therefore are indicative of a more dedicated, longer-term sales development strategy. There is an obvious correlation between the size of the firm and the tendency to move from the first category to the second, wherein a stronger business commitment is required.

Working with consultants to access assets from abroad was a relevant strategy to most participants, regardless of location or size. When we did the 2005 survey we examined the role of consultants in detail. At that time, their importance as gatekeepers varied depending on the country. In all of the Anglo-Saxon markets with a large funded pension structure like the US, Canada, UK and Australia they remain the critical link to institutional investors, particularly in the latter two markets. They were of less importance elsewhere. However, since the last survey, they are playing a larger role in other markets, including Germany, Switzerland and to some extent Scandinavia.

There was a close correlation between the size of the money management firm and the importance the manager attributed to working with consultants from abroad. Larger firms are more accustomed to working with the consulting community. Frequently, they have separate units within their institutional marketing and departments that specialise in working with consultants. More than half of the US managers assign the highest importance to working with investment consultants in conquering foreign markets. Among European firms it is less pronounced.

A vast majority of participating firms, irrespective of where they were headquartered, stated that marketing to institutional clients was done in a centralised fashion from the head office. Being physically on the ground in the targeted markets was cited by the surveyed firms as second in importance for their foreign sale activities. US managers have fewer local marketing offices outside of their home country. This explains why more Europeans considered this aspect pivotal to their marketing process.

It is noteworthy that outsourcing marketing activities to local specialists such as third-party marketing firms, while still viewed as the least important option, has gained weight compared with four years ago. In 2005, only 9% of the firms considered this sales methodology as carrying any value in the foreign asset gathering process compared with 28% of firms surveyed this time. In our opinion, the large increase might be the result of the growth in service providers outside the US. Institutionally oriented contract marketers, well known in the US as asset gatherers, are also starting to hang out their shingle in Europe.

Examining the nuances between firms of different magnitudes clearly show a bias towards keeping the marketing process in-house by all of the participants, irrespective of how many assets they managed. More specifically, larger firms are more willing to build their own marketing offices abroad and thus the degree of importance they assign to this aspect goes up proportionately with the underlying size.

In conclusion, while local marketing offices may greatly facilitate the sales activities of money managers when selling cross-border, this is not the primary issue. The key to success is inevitably linked to the awareness of cultural nuances and the understanding of the idiosyncrasies of the particular marketplace. Any money manager not sensitive to these issues risks falling short. It is amazing to see the extent to which many money management firms mistakenly believe that services geared to institutional investors can be marketed without taking these fine but significant distinctions under serious consideration.

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