

Wholesale Challenges: Retail Distribution in Turbulent Markets

By Bing Waldert, Cerulli Associates

Wholesalers have been forced to evolve their business model and value proposition in recent years. More than 7,000 mutual funds are available to advisors along with a sea of other investment vehicles including separate accounts, exchange-traded funds (ETFs), and alternative investments. As a result, it has become more difficult than ever for wholesalers to stand out solely on the basis of their product. Parallel to this shift, financial advisors, particularly the largest and most successful, have been shifting to fee-based, planning-oriented relationships. The combination of these factors has forced wholesalers to move away from being simple product salesmen to consultants for advisors and their businesses.

As part of this shift, wholesalers have been forced to evolve the content they deliver beyond a product commercial. Value add has become an overused industry term, but it's one that refers to content that isn't product-specific in nature. Although value add is not product-specific, it still can be investment-oriented, demonstrating a specific investment thesis to advisors or showing how they might build better portfolios. For example, one asset manager with specific expertise runs a series of training modules on the value of international investing but without reference to a specific product. Examples of non-product content include business-building ideas and advisor success stories.

This shift toward advisor education also plays into how product manufacturers are dealing with industry consolidation. During the current market crisis we have seen broker-dealer consolidation continue, creating ever larger firms in

the industry. These consolidations have made it essential for asset managers and other product manufacturers to maximize opportunity in these firms. This includes working at multiple levels of the firm to influence product managers, sales managers, and due diligence analysts. However, it also includes taking the broker-dealer strategy and translating into the field so that wholesalers understand the broker-dealer's initiatives. Ultimately, this becomes an issue of aligning wholesaler content with the needs of the broker-dealer, which is another argument for the wholesaler to be much more than just a product salesperson.

This shift toward a more-consultative, content-oriented focus has increased the need for wholesalers to be active profilers of advisors. Nearly half of wholesalers spend at least 15 minutes profiling an advisor in an initial meeting to better understand how the advisor's business operates. This conversation can cover investment strategies, marketing strategies, and product choices. Wholesalers highly ranked the importance of their own skill at understanding the advisor's business. However, these same wholesalers rated their advisor-interviewing skills as relatively low, and they placed a high priority on interview training.

These trends have been somewhat shaken, but not disproved, by market events. In light of the market crisis, advisors have shown an almost insatiable appetite for market commentary and data, in an effort to develop their own opinions on the future direction of capital markets. Firms with well-known strategists have found it easier than ever to get in front of advisors. Wholesalers ranked competitive

Methodology: In February 2009 IMCA distributed a survey link to more than 7,300 current IMCA members providing access to a proprietary Cerulli Associates online survey instrument. The total respondent base of 495 is a sample of the membership of Investment Management Consultants Association. This report is based on data from 114 wholesalers respondents.

product knowledge and investment analysis as their two most-desired training topics. Although the desire for capital market outlooks represents a shift back toward investment strategy, it does not portend a shift away from a consultative business model. The effects of the market crisis have been broad, affecting nearly everyone. As such, for the time being, advisor need has shifted away from marketing strategies to how clients can profit coming out of a bear market.

Ample opportunity exists for wholesalers and product

manufacturers in the near future. Billions of dollars sit on the sidelines in cash, waiting to shift back into capital markets. Wholesalers have a tougher job than ever. They must evolve their selling activities and be more cognizant of their role in the overall firm strategy. Likewise, they also must be more skilled in understanding capital markets and how their products performed in the market crisis. However, those wholesalers who can successfully work with advisors stand to benefit as money moves from cash into growth-oriented products.

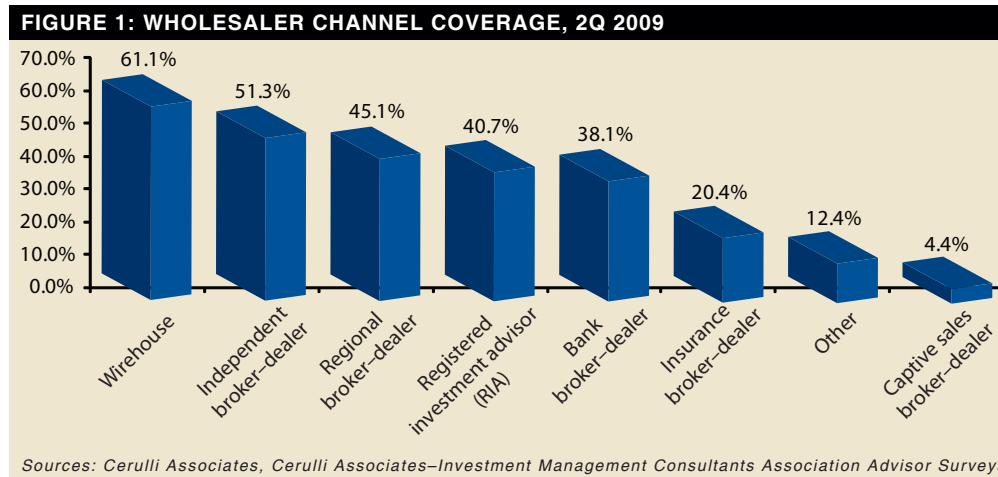


FIGURE 1: Wholesalers who are IMCA members are most likely to work with wirehouse advisors (60 percent). Next most common are independent broker-dealers (51 percent) and regional broker-dealers (45 percent).

Key Implications: Although the wirehouse business model has come under fire in recent months and years, Cerulli Associates believes that wirehouses remain and will remain a key distribution channel. Morgan Stanley Smith Barney, Merrill Lynch, UBS, and Wells Fargo Advisors control the largest segment of client assets of any intermediary channel. In addition, their advisors are prime targets for wholesalers with

advanced investment expertise because the advisors' practices are more investment-focused than the practices of advisors in other distribution channels. Of note here is also the focus on independent broker-dealers. Some product manufacturers have moved away from channelized sales forces. This move is being driven by advisors' movement toward independence and a blurring of traditional channel lines. Manufacturers also have made this move in order to focus on large broker-dealers, regardless of channel. Although wirehouses continue to dominate the landscape, a number of independent broker-dealers (e.g., LPL, AIG, ING) are among the largest in the industry in terms of advisor headcount.

FIGURE 2: IMCA wholesalers were most likely to be supporting sales of mutual funds (76 percent). The next most common product line was separate accounts (66 percent). Other responses included ETFs, various alternative assets, and third-party vendors to whom advisors outsource asset management.

Key Implications: Cerulli Associates has observed an industry outflow from separate accounts at a greater rate than other managed account programs. Some of this decline

is attributable to assets moving out of the capital markets because separate accounts largely have been domestic equity vehicles. Separate accounts also have come under fire for their perceived lack of transparency and poor performance. However, the drop in separate account programs has been accompanied by a move into representative-driven programs such as rep-as-advisor and rep-as-portfolio-manager. As noted, some of these moves are attributable to advisors seeking more diversified solutions. However, these moves also are explainable by advisors moving to more flexible platforms

that might be more portable should they choose to leave. Cerulli Associates believes that the future of the separate account is bright. However, the return of assets to separate accounts is more likely to be through unified managed accounts (UMAs), a vehicle-neutral program that can offer clients a more diversified solution.

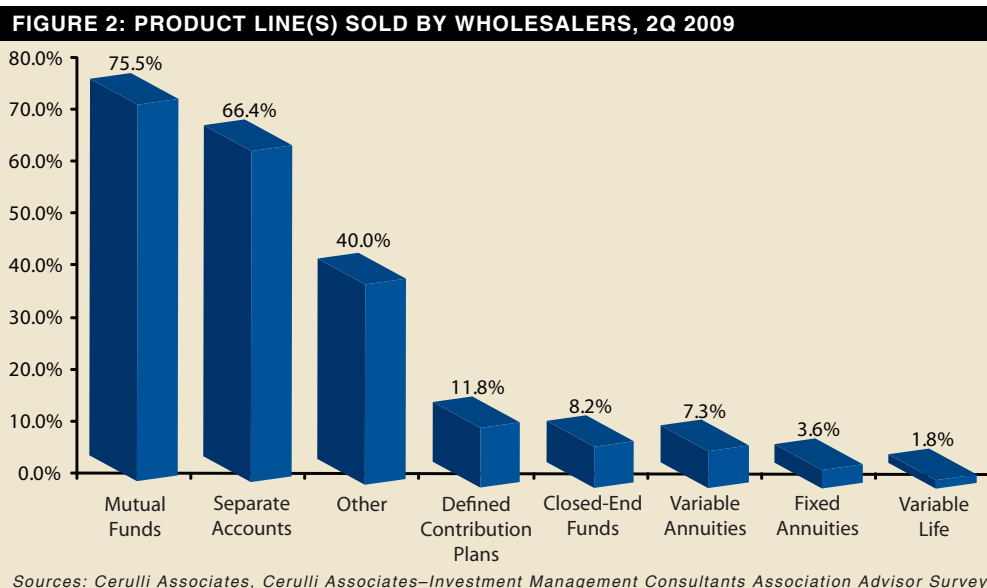


FIGURE 3: IMCA wholesalers are most likely to have less than five years of experience as a wholesaler (40 percent). The next most populous group was those with between six and 10 years of experience. The average tenure for an IMCA wholesaler was just under eight years as a field wholesaler.

Key Implications: A gap exists in the industry between advisor and wholesaler experience. Most financial advisors are over the age of 50 and have more than 10 years experience as a financial advisor. In contrast, wholesalers are likely to be between the ages of 30 and 40 and carry less than 10 years of experience. This does not mean that wholesalers should abandon hope of working with a gray-haired advisor. Wholesalers still can add value to an advisory practice, but they must be conscious of the age and experience gap. Seeking out education and training is just one way in which a wholesaler can look to work more effectively with advisors.

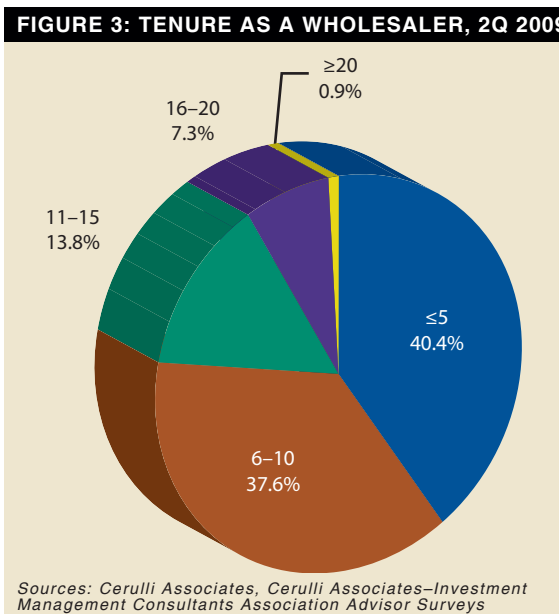


FIGURE 4: Wholesalers reported that the largest segment of their time is spent with producing advisors (26 percent). Meeting with prospective advisors is the next most frequent use of time. Non-sales activities ranked next. Administrative tasks, scheduling appointments, and travel time ranked third, fourth, and fifth respectively.

Key Implications: Figure 1 shows that a number of firms were moving away from sales force channelization. Another reason for this evolution is a greater focus on wholesaler

time. By carving out smaller, dechannelized territories, wholesalers can minimize their travel time and minimize their time in hotels, allowing them to spend more time with financial advisors. The need to service existing clients has accelerated in recent months with the current market turmoil. Advisors are hungrier than ever for capital markets content. Wholesalers must be in front of advisors during difficult times, positioning themselves as a resource on capital markets and investing issues.

FIGURE 4: WHOLESALER TIME ALLOCATION, 2Q 2009



Sources: Cerulli Associates, Cerulli Associates–Investment Management Consultants Association Advisor Surveys

FIGURE 5: GREATEST CHALLENGE FOR WHOLESALERS, 2Q 2009

	Advisors unwilling to change existing product providers	Gaining access to advisors	Increased influence of broker–dealer in asset management selection and packaging	Difficult to distinguish self because of number of products available to advisors	Support from home office	Working with advisors in a more consultative fashion	Segmenting advisors to spend time profitably	Lack of training	Other
Greatest challenge	43.1%	42.6%	38.1%	20.6%	19.6%	19.6%	17.8%	13.1%	33.3%
Somewhat of a challenge	45.9%	43.5%	44.8%	54.2%	56.1%	54.2%	60.7%	50.5%	25.0%
Not a challenge	11.0%	13.9%	17.1%	25.2%	24.3%	26.2%	21.5%	36.4%	41.7%

Sources: Cerulli Associates–Investment Management Consultants Association Advisor Surveys

FIGURE 5: Wholesalers ranked the unwillingness of advisors to change product manufacturers as their greatest challenge. Gaining access to advisors ranked as the second greatest challenge. The increased influence of the broker–dealer ranked third.

Key Implications: Changing advisor behavior is not an easy task. Advisors are reluctant to recommend products that are unfamiliar for fear of the product “blowing up” and damaging a vital client relationship. This challenge is further

compounded by the volume of product that is available to financial advisors, making it difficult for wholesalers to distinguish themselves and their product lines. Wholesalers must prove themselves as a valuable resource to an advisor and the advisory practice. Extreme examples include independent advisory practices that maintain an office for a favored wholesaler. Although it is unrealistic to expect this degree of success, wholesalers who become entrenched in a key advisor’s practice do away with the issue of access and their product lines become the ones that other wholesalers cannot displace.

FIGURE 6: Sixty-one percent of wholesalers ranked competitive product knowledge as their most desired training. Investment analysis ranked second (54 percent). Advisor interviewing skills ranked as third-most desired training, with more than half of wholesalers interested in improving this skill.

Key Implications: Wholesalers are faced with an interesting conundrum. There has been a multi-year push away from product-oriented content toward softer, more-consultative, business-building support. However, in the wake of difficult capital markets, advisors have shown increased interest in investment commentary and are hungry for data to help them

form market opinions. Wholesaler opinion reflects this; respondents report that they are seeking to improve their competitive product knowledge and analytical skills. Wholesalers are well-served to provide advisors with high-level investment content, but they must tread carefully to ensure they are delivering information an advisor can use to improve his or her practice and investment portfolios, not simply a product commercial.

FIGURE 6: MOST DESIRED TRAINING BY WHOLESALERS, 2Q 2009

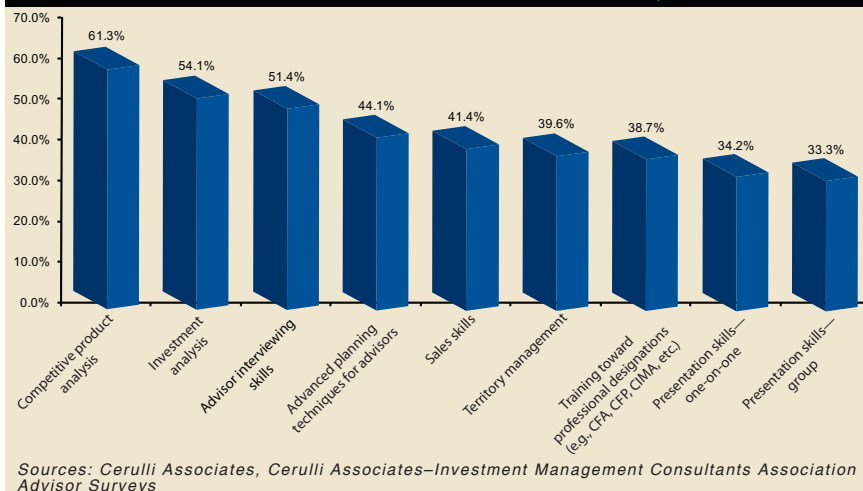
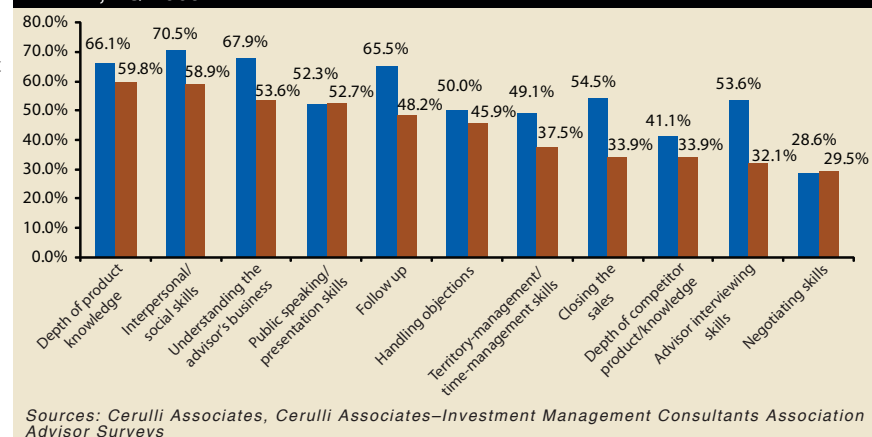


FIGURE 7: Wholesalers ranked interpersonal skills, understanding advisors' businesses, product knowledge, and follow up as the most important advisor skills. Wholesalers were most likely to rank themselves as skilled in product knowledge and social skills.

FIGURE 7: MOST IMPORTANT WHOLESALER SKILLS VS. THEIR OWN SKILL LEVEL, 2Q 2009

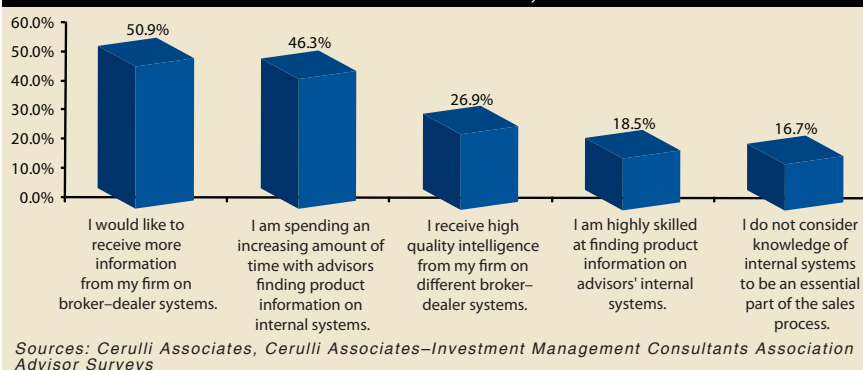


Key Implications: Although the top answers when comparing the most important skills for a wholesaler with their own abilities seem to be aligned, some gaps do emerge. For example, 70 percent of advisors considered interpersonal skills to be important, but only 59 percent considered themselves highly skilled. The biggest gaps existed in advisor-interviewing skills and follow up. Advisor interviewing plays a key role in wholesalers' efforts to position themselves as business consultants and providing value beyond just product. Like-

wise, follow up presents a clear opportunity for wholesaler improvement. Although it might be difficult to train explicitly on follow up, an employer could offer training on time management and organization.

FIGURE 8: More than half of wholesalers (51 percent) desire more information on broker-dealer systems. Nearly half (46 percent) of wholesalers find they are spending an increased amount of time finding information on broker-dealer systems.

FIGURE 8: WHOLESALER TIME SPENT WITH ADVISORS LOCATING PRODUCT INFORMATION ON THEIR SYSTEMS, 2Q 2009



Key Implications: The industry has experienced dramatic consolidation in broker-dealers in recent years. Market turmoil has created

some of the largest firms in the industry. With fewer players, greater importance is placed on broker–dealer relationships for product manufacturers. Being shut out of a key broker–dealer can have massive impact on a product manufacturer’s distribution strategy. To maximize a key relationship, wholesalers must be equipped with information about the firm, its systems, and product availability. Having this data serves

two purposes. First, the wholesaler gains credibility with advisors by understanding how advisors conduct their businesses and how their firms operate. Second, as the wholesaler learns more about the advisor and the advisor’s business, the wholesaler knows which products are available on the advisor’s platform of choice and can more easily identify potential opportunities.

FIGURE 9: TIME SPENT DIAGNOSING NEW ADVISOR PROSPECT’S NEEDS, 2Q 2009

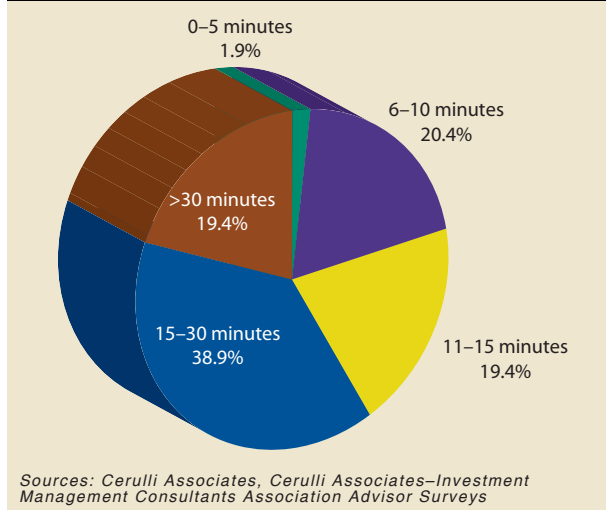
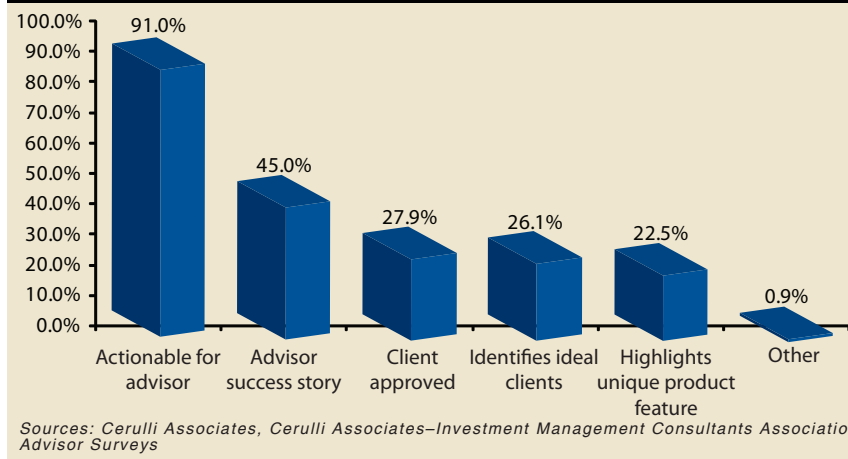


FIGURE 9: Wholesalers are most likely to spend 15–30 minutes diagnosing an advisor’s needs in an initial meeting. Nineteen percent of advisors spend more than 30 minutes and another 19 percent spend 11–15 minutes on advisor interviewing.

Key Implications: Given the proliferation of product available to advisors, it has been increasingly difficult for wholesalers to gain the attention of financial advisors. As a result, wholesalers, much like advisors, have been forced to evolve to more-consultative business models, where their value is not about simply product but in being a business resource for the advisor. Understanding the advisor’s practice and needs is key to this more-consultative model. How advisors market themselves, what products and platforms they use, and how they build portfolios are all elements that wholesalers need to understand in order to fit into advisory practices. Once a wholesaler has an understanding of how an advisor conducts businesses, the wholesaler can develop a plan to become an asset to that advisor and the practice.

FIGURE 10: ELEMENTS OF AN EFFECTIVE SALES IDEA, 2Q 2009



of a successful sales idea. The survey found that the second most important element of a successful sales idea is an advisor success story.

Key Implications: Advisors rarely want to be early adopters of new ideas or concepts. They are afraid of being on the leading edge and having a client get burned. Thus, wholesalers must be able to take a product or investment concept and demonstrate how other advisors have successfully used it in their practices. In addition, the concept must be relatively simple, meaning that once the wholesaler has

FIGURE 10: Nearly every respondent (91 percent) reported that being actionable for advisors is the key element

left, the advisor can ably discuss the concept with clients and put it into practice.

FIGURE 11: WHOLESALERS VS. ADVISORS—REASONS ADVISORS CHOOSE ASSET MANAGERS, 2Q 2009

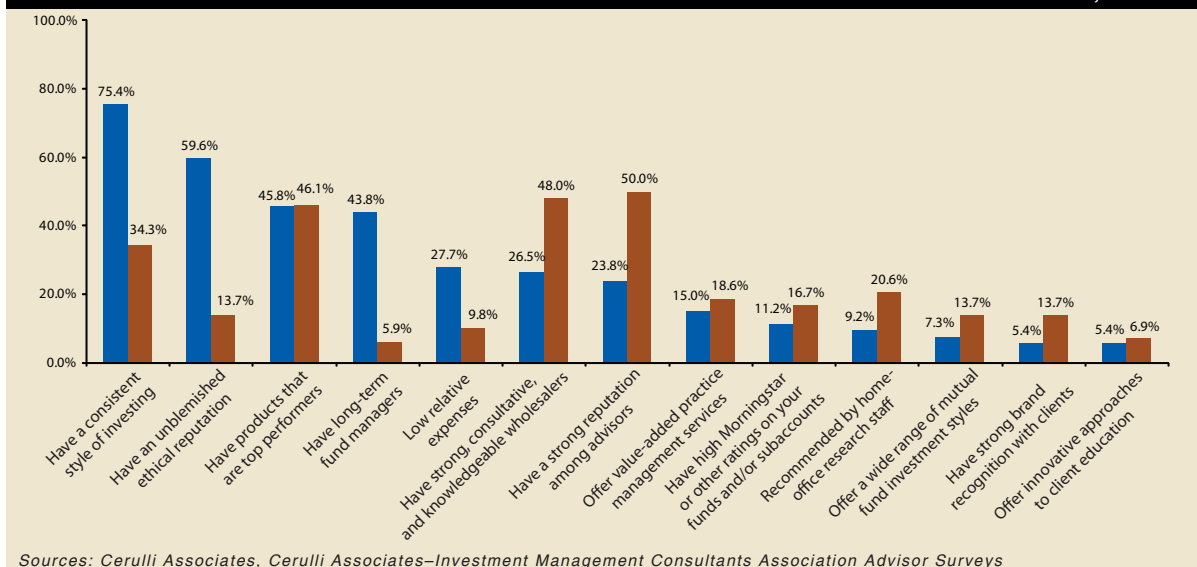


FIGURE 11: According to advisors, the most important elements in selecting an asset manager are a consistent style of investing, a clean ethical reputation, and strong performance. Wholesalers believe the three most important elements for advisors are reputation among advisors, wholesaler relationship, and performance.

Key Implications: A perception gap exists between what advisors say they do and what wholesalers think advisors do. The truth likely lies in between. As one industry executive said, “Advisors answer questions like they are in church.” Advisors, however, placed the greatest importance on those

factors that would place their client relationships at risk—consistency and risk of ethical scandal. Particularly in light of the current market, wholesalers would be well-served to emphasize the risk factors associated with their products. Likewise, it is not surprising to learn that wholesalers rate their own influence higher than advisors rate it. Cerulli Associates believes it is likely that advisors, whether purposefully or not, downgrade the influence of wholesalers. Advisors do not want to believe or admit that a salesperson can influence their selection of best-of-breed products. The true influence of wholesalers likely lies someplace between that stated by wholesalers and that stated by advisors.

FIGURE 12: WHOLESALERS: REASONS WHY ADVISORS CHOOSE VARIABLE ANNUITY PROVIDERS, 2Q 2009

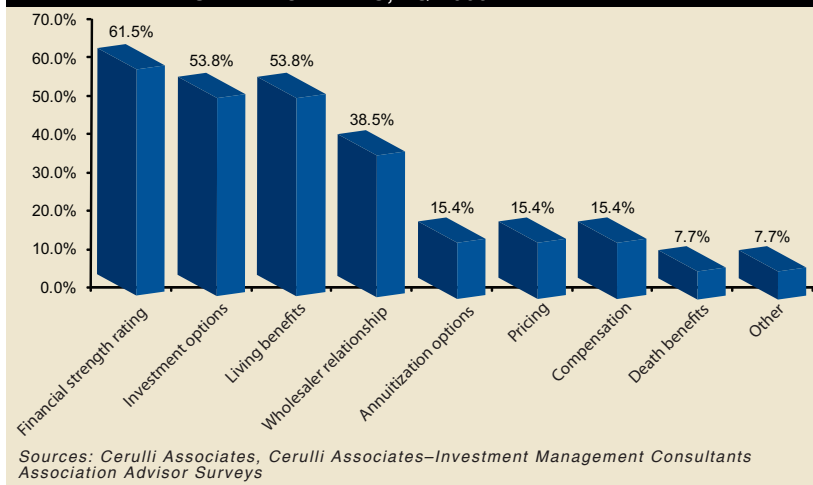



FIGURE 12: Wholesalers believe that the most important factor in advisors choosing a variable annuity provider is the financial strength of the issuer. Investment options and living

benefits tie for second as the next most important elements in advisors selecting a variable annuity provider.

Key Implications: In past years, advisors have ranked financial strength among the most important elements of selecting a variable annuity provider and Cerulli Associates has doubted the true impact of this factor. However, the recent unprecedented financial turmoil has led to financial difficulty for some of the industry’s notable players, including a number of large, well-regarded insurance companies. As a result, annuity wholesalers have been forced to quickly adapt and be able to discuss a parent company’s balance sheet and risk management procedures as well

as the ins and outs of the product line.  Contact Bing Waldert at wwaldert@cerulli.com.

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