Staffing a DCIO Sales Effort

This Strategy Brief is the second in our series of insights regarding the defined contribution investment only (DCIO) market opportunity for investment managers. For this four-part series, we have partnered with Sway Research to provide relevant information on opportunities and trends to help our clients make informed decisions regarding their strategic distribution efforts. In our first Strategy Brief in this series, *Sizing Up the DCIO Market Opportunity*, we examined the DCIO market opportunity. In this Strategy Brief, we examine the requirements for establishing a sales effort and distribution team to gather DCIO assets.

**KEY TOPICS EXAMINED**

**ESTABLISHING DISTRIBUTION IN THE DCIO MARKET**

**STAFFING ROLES AND LEVELS**

**SALES FORCE PRODUCTION AND COMPENSATION DATA**

**ESTABLISHING DISTRIBUTION IN THE DCIO MARKET**

Investment managers generally bifurcate the defined contribution investment only (DCIO) market into two segments: retail and institutional.

Sway Research: DCIO Market Segments

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<thead>
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<th></th>
<th><strong>Retail</strong></th>
<th><strong>Institutional</strong></th>
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</thead>
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<td><strong>Plan Size</strong></td>
<td>Under $50 million</td>
<td>Over $50 million</td>
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<tr>
<td><strong>Typical Menu Setters</strong></td>
<td>Platform gatekeepers, 401(k)-focused advisers, TPAs</td>
<td>Third-party consultants, plan sponsor investment committees</td>
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<tr>
<td><strong>Product Structures</strong></td>
<td>R-shares, load-waived A-shares, group annuities</td>
<td>Institutional mutual funds*, collective investment trusts, institutional separate accounts</td>
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*Institutional mutual funds include institutional share classes with no 12b-1 fees, often called I-shares.

The institutional market is controlled by plan sponsor investment committees and third-party consultants and is generally serviced by the same sales personnel that support defined benefit (DB) and foundation and endowment business.
As investment managers continue to capitalize on the DCIO market opportunity, they increasingly want their retail sales forces to actively target advisors in the DCIO market. The retail segment is controlled by platform gatekeepers, 401(k)-focused advisors and third party administrators (TPAs). While investment managers typically have a greater opportunity to influence platform gatekeepers, advisors and TPAs in the retail segment, DCIO sales professionals should be equipped for an institutional-like sales process where the sales role is highly analytical. Advisors in this segment expect a firm’s sales professionals to provide in-depth support around product and positioning.

**STAFFING MODELS**

There are two primary approaches that investment managers employ when staffing a DCIO distribution effort, which impact the size of the sales staff. The first approach is a top-down model where key account managers work to (i) establish relationships with the retirement platform gatekeepers, and (ii) secure both platform placements and preferred positions within asset allocation models and recommended lists. This approach requires fewer sales personnel because it eliminates the need to provide additional external sales support to advisors and TPAs unless a specific platform requests additional support. This top-down approach can work in both the institutional and retail segments, however, firms that only approach the retail market with a top-down method could be missing an opportunity to influence many advisors and TPAs involved in selecting products. Generally, the top-down, key account manager approach is sufficient for firms targeting the institutional market. Nonetheless, leading investment only managers have supplemented their institutional efforts with one or two sales professionals if they have a large 401(k) relationship that could be at risk.

The second approach combines top-down and bottom-up models, which requires more personnel. This approach includes a team of external sales professionals who seek to develop relationships with retirement plan-focused advisors from traditional broker/dealers, RIAs and TPAs. Through their relationships, the external sales professionals can influence the advisors and promote the investment manager’s products.

According to some of the most successful DCIO sales team managers, the first approach can generate strong sales when the firm possesses both excellent performance and brand recognition, or a reputation in a particular asset class or specific product niche. However, the second approach is required to generate a consistent level of sales over time and various market cycles, or if the product is in a crowded asset class, has a short track record or reflects inconsistent performance.

**STAFFING SPECIFICS: ROLES AND LEVELS**

Exploring the DCIO market can be done initially without a significant distribution sales team commitment. Many investment managers entering into this space typically start with one or two sales professionals and increase the sales team size and support as distribution opportunities develop. When filling these roles, DCIO sales managers often look for individuals with a strong knowledge of DC plan distribution and ERISA regulation, such as someone that has worked as a sales person for a defined contribution (DC) platform provider. This professional typically has a strong knowledge of the drivers of plan sales, a deep understanding of the competitive environment as well as a network of contacts within the DC market.
There are four distinct roles that are commonly staffed against a DCIO sales effort. The roles are not specific to an institutional or retail approach, however, consultant relations representatives tend to work more with the institutional market and internal sales professionals typically support the external sales professionals' retail, rather than institutional, efforts. The roles are:

1. **Key Account Manager.** The primary role of the key account manager is to develop relationships with platform gatekeepers and due diligence teams and to support the home office relationship once a placement is achieved. A key account manager typically has 10 years of experience and many have experience in portfolio analytics, a CFA or an MBA.

2. **External Sales Professional.** As mentioned above, the external sales professionals are often hired from DC platform providers where they have gained 10-15 years of experience working directly with DC plans. The two types of external sales professionals in the DCIO market are detailed below.
   
   a. **Retail External Sales Professional.** The retail external sales professional generally is a retirement specialist and targets 401(k)-focused advisors and TPAs that sell plans with assets under $50 million. Even though these professionals are considered retail-focused, they understand that the advisors in this channel require a high degree of credibility and delivery of educational and practice management solutions.

   b. **Institutional External Sales Professional.** Typically, investment managers tap their existing institutional sales professionals who focus on the DB market to work with plan sponsor investment committees and platform gatekeepers to obtain product placement in large DC plans and on DC platforms. Once the product is on the platform, the retail external sales professionals may be tapped to contact the large plans participating in the platform as appropriate.

3. **Internal Sales Professional.** The DCIO internal sales professional has similar responsibilities to those of traditional internal wholesalers. They typically have 3-5 years of experience and their primary responsibilities include prospecting and profiling opportunities for external wholesalers, providing information to advisors, managing a contact system, supporting external wholesaler efforts with administrative functions and managing some advisor relationships on their own.

4. **Consultant Relations Representative.** The consultant relations representative works closely with third party consultants, such as Callan, Russell and Mercer, who make recommendations regarding DC plan fund options. Today’s successful consultant relations representatives have an average of 8 years of experience and take an analytical approach when engaging their counterparts at the various consulting firms. The representatives build trust and credibility with consultants by proactively and thoughtfully addressing periods of weak performance while explaining how their firm’s philosophy, process, and people will combine to produce consistent returns over the long-term. These individuals must be experts in ERISA regulation and the DC market, as well as experts in the portfolios and asset classes they are promoting.

Since the beginning of this decade, more and more investment managers have created a dedicated team of distribution professionals for the DCIO channel. However, the majority of investment managers started with a small team and expanded efforts as appropriate based on opportunities. According to a January 2008 Sway Research survey of investment managers (Aligning an Organization for Platform Sales Success), the investment managers surveyed averaged $9 billion of DCIO assets under management and employed a team of 4.7 external sales professionals and 2.8 internal sales professionals on average to cover the DCIO market. These firms also employed an average of 1.7 key account managers and 3 consultant relations representatives, who split their time between the DC and DB business segments.
SALES FORCE PRODUCTION AND COMPENSATION DATA

DCIO sales have been growing quickly for many firms, with some Sway Research survey respondents generating 25% to 33% of annual firm-wide sales from a DC effort that is supported by as few as 10 full-time, DCIO-dedicated employees. These firms did not start with 10 full-time employees. They typically launched a DCIO distribution effort with as few as one or two full-time DCIO-dedicated employees and gradually increased the staff over time. In addition, these employees often serve multiple roles and can have both sales and client service responsibilities.

Sway Research: Production Levels

As a benchmark, the firms included in the Sway Research survey typically manage on average more than $2 billion of DCIO assets per external sales professional and each external generated approximately $460 million in gross DCIO sales per year (data as of 2007). For those firms who employ key account managers, the asset generation is even higher. These firms manage on average more than $5.5 billion in DCIO assets per key account manager and each manager generated roughly $1.5 billion in gross DCIO sales per year.

Amongst the firms surveyed, the highest compensated position in a DCIO distribution team is the external sales professional. Firms...
participating in the survey pay between $150,000 and $500,000 to their external sales professionals with an average of approximately $280,000. It is important to note that commissions make up a large portion of an external sales professional's total compensation and are variable. Total external sales professional compensation is directly impacted by product, performance, firm and the overall economic environment.

Amongst the firms surveyed, the key account manager and the consultant relations representative are compensated approximately $240,000 on average within a range of $150,000 and $300,000. Like the external sales professionals, there is a significant variable component to their total compensation, but they tend to have a higher base percentage than the external sales professional. The internal sales professional is compensated at industry averages based on experience and the total annual compensation ranges between $60,000 and $110,000.

This second Strategy Brief is designed to provide investment managers with staffing and sales production metrics and compensation data to compare against their DCIO distribution efforts or to consider when evaluating the resources required to build distribution in the DCIO market. There will be two additional Strategy Briefs in the DCIO series released later this fall. The remaining Strategy Briefs will address:

- DCIO product strategy, including collective investment trusts; and
- Maintaining profit margins on existing DCIO business.

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