

The Eight Most Common Distribution Missteps

Distributing investment products into the retail intermediary channel is challenging and the competitive forces currently at play, including significant intermediary consolidation, promise to create an even more challenging environment. For any asset manager looking to approach these channels, it is important to consider the lessons of those that have gone before.

An effective strategy can yield significant rewards but there are some common missteps that managers should avoid:

1. Lack of Sound Distribution Strategy and Planning

Any successful initiative requires an understanding and unbiased assessment of the competitive environment, identification of opportunities and a plan to capitalize on those opportunities. Distribution is no different. It is critical to determine the resource and financial investment necessary to achieve a successful distribution effort. A sound strategy and plan can help keep an organization focused in a dynamic industry and market environment with many distractions.

2. Underestimating the Time and Financial Commitments

A distribution initiative is a long-term strategy which may take several years to bring value to the organization. The initial and ongoing financial commitment can be considerable in terms of personnel, infrastructure costs and intermediary-levied charges (e.g., revenue sharing, platform charges). Outside forces, such as market conditions, may have a significant impact on the timeframe required to determine success.

3. “If I Build It, They Will Come” – Overestimating the Market Demand

A quality product—one with strong performance, highly regarded manager, or unique niche—does not necessarily translate into assets. Ultimately, a product must address a market need – in best cases, a recognized need that potential clients will act upon. Product trends can be fickle, and a product with no demand today could be in high demand under different circumstances. For ETF sponsors, properly assessing market demand is critical to ensure sufficient trading volume necessary to maintain a narrow bid/ask spread.

4. Mistaking Luck for Strategy – Copycat Syndrome

Frequently when a manager is successful with a particular product or strategy, firms strive to emulate that success. However, the success may not be something that can be replicated by others. The manager may have a “hot” product, been first to market or have established distribution relationships.

5. Losing Sight of the Macro Trends

Market conditions change, and trends emerge that impact a distribution effort. While executing a distribution strategy, it is important to remain flexible and be prepared to make necessary tactical changes if market changes dictate. One such trend is the emergence of fee-based programs and the professional buyers at intermediary firms that support these programs. This trend has moved some of the product purchase decisions from the advisor to the home office – thereby impacting the ability of the wholesaler to effect sales at the advisor level while putting greater importance on the home office relationship.

6. Overestimating Sales Team Requirements

A sales team is a critical component to a distribution effort. The size and experience level of a sales team should be predicated on the distribution strategy – specifically, what is the product offering and which channels represent sales opportunities. Different products and channels lend themselves to different sales models. A common misconception by managers is that a large sales team with national coverage is necessary for success. This often leads to managers

building that team before solidifying their distribution strategy – thereby wasting valuable time, effort and financial resources.

7. Underestimating the Selling Agreement Process

Before mutual fund assets can be raised through an intermediary, a selling agreement must be executed with the mutual fund distributor. The selling agreement process requires coordination of numerous parties. In certain circumstances, it is a negotiated agreement that can take several months to finalize. It is critical to factor this timing into any distribution plan to ensure selling agreements are in place when the sales team calls on the intermediary.

8. Undervaluing Existing Relationships

Developing new relationships can be an expensive and time-consuming proposition. Institutional managers should not overlook their existing institutional relationships when considering intermediary distribution strategies. The relationships developed with consultants, platforms, advisory firms, etc. can be leveraged into sales opportunities with retail product. Similarly, if a firm manages SMA assets for an intermediary, the intermediary may be interested in the manager's strategy packaged as a mutual fund or collective fund, for example.

To learn how SEI's distribution services can help your firm differentiate your products, increase awareness, and effectively target distribution channels for greater revenue opportunities, please contact us.

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