How Has Fund Distribution Changed?

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The last 12 months have seen no shortage of jaw-dropping occurrences in the financial services realm, but for fund marketers, the biggest story has been the shrinking pool of wirehouses. In the wake of the market meltdown, industry insiders also note the rise of portfolio managers as pitchmen, a big shift in attitudes of investors and advisors, and the challenges of having to do more with less resources.

The quickie wedding between Merrill Lynch and Bank of America, Wachovia's decision to leave Citigroup at the altar and hop on Wells Fargo's stagecoach, and the union this year of Morgan Stanley's wealth management arm with Smith Barney -- all within a span of nine months -- meant frequent Rolodex updates and less people to call on for fundsters, whose own ranks have thinned amid the crisis. As for UBS, the fate of Paine Webber unclear: CEO Oswald Grubel was quoted in the media as confirming on Tuesday that Paine Webber was a non-core business, though he appears to be in no rush to sell it.

"Related to organizations, the biggest change has been the rightsizing and realignment of sales forces," said John Cammack, who built T. Rowe Price's third-party distribution business and is set to retire at the end of the month after 18 years with the Baltimore firm.

"There's lots of new contacts for everyone," said Doug Hanson, head of Schwab's mutual third-party mutual fund platforms, including OneSource.

Jane Mancini, founding partner at I-Pension and a former executive vice president of sales and marketing at Rydex, described the changes at broker-dealers as "mind-boggling."

"Mergers, asset decline, cash on the sidelines, management layoffs and broker defection have changed the way fund companies must interact with these firms," she said.

"After the downturn, we experienced an all-time high in advisor demand for assistance from their wholesalers and investment management partners," said **Dan Seivert**, founder and CEO of investment bank **ECHELON Partners**. "When times are good, advisors are less prone to work with their partners, believing they have everything covered."

"This presented a great opportunity to solidify and create new relationships," Seivert said.

Faced with having to do more with less, fund firms have increasingly turned to virtual distribution to "support, enhance or replace the traditional wholesaler," said Dan Sondhelm, vice president at marketing consulting firm SunStar.

Mary Anne Doggett, co-founder and managing principal of Interactive Communications, pointed to the use of "third party data to get wholesalers in front of the right advisors" and noted the "introduction of hybrids to leverage distribution through the Web, phone and face to face."

Fund firms are also urging their portfolio managers to channel their inner salesman.

"Firms are reluctantly realizing their portfolio managers may have more influence with advisors than the marketing department," Sondhelm said, "so firms are asking/requiring portfolio managers to talk with advisors on webinars, work the booth at advisor conferences, and work with media to tell their story."

Meanwhile, investor and advisor attitudes are changing. Keith Hartstein, president and CEO of John Hancock Funds, noted that the market tumult "spawned a significant shift in the attitudes of financial advisors and investors toward asset allocation and investment risk."

Another effect of the events of 2008 is that some of the smaller fund shops with little distribution muscle have decided to merge with others, put their funds up for adoption or exit the business entirely.

So what steps are fund companies taking to build their brand at a time of smaller marketing budgets?

At Schwab, "we continued our existing ad campaign and tweaked the message to reflect what has occurred in the market," said Hanson. "We're slightly heavier online versus print than we were pre-crash."

For Hancock, the madness in the markets is no reason to keep its head down. "We have been more aggressive with our messaging around John Hancock providing tools and information to help advisors cope with the downturn," Hartstein said.

"We're sending out more e-mails than ever and have even launched our first product ads in more than a year," he said.

Cammack, Doggett, Hanson, Mancini, Hartstein, Seivert and Sondhelm will be among the speakers/moderators at the MFWire Influencers' Summit: Redefining Distribution, which kicks off at 6:00 p.m. tonight at the Four Seasons Hotel in Boston. The summit will run through 4:45 p.m. tomorrow.

Daniel Seivert

Managing Director

dseivert@echelon-group.com