

## The New Mutual Fund Distribution Model: Doing More with Less

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Remember when markets were rising, profits were strong and fund distribution was all about having a large wholesaling staff, generous compensation programs to incent wholesalers and support staff to track sales and calculate payouts?

As a result of the 2008 financial market meltdown, the “good old days” of traditional mutual fund distribution are quickly coming to an end.

With assets bleeding and profit margins squeezed, mutual fund sales managers are now faced with budget constraints that make it virtually impossible to sustain the expensive distribution model of the past.

At the same time that pressure is mounting to reduce the cost of distribution, the ground beneath the traditional distribution channels is shifting. The most powerful distributors of mutual funds have either been acquired or absorbed into a handful of large broker/dealers and banks. Even if a wirehouse broker/dealer has remained intact, many top producers with established accounts are moving to competing wirehouses, or leaving to form their own independent advisory business with an independent B/D or custodian supporting registered investment advisors (RIAs).

Recruiting efforts for all distribution channels have stepped up dramatically in response to the market turmoil. Most involved in this movement agree that the rate of change will only increase going forward. Keeping track of relationships as brokers switch firms is a growing challenge for fund companies. It will require a new approach for managing and measuring distribution success.

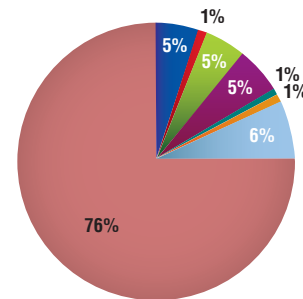
### Managing the Changing Landscape

The movement of registered reps between wirehouse broker/dealers and a growing number of independent advisor distribution platforms is beginning to occur. In the month of December alone, over 2,000 registered reps left the broker/dealer they worked for to join another firm, according to **Discovery**, the leading provider of market demographic information about financial intermediaries. While the majority of brokers are simply switching wirehouse B/Ds, 24% of the breakaway brokers are moving to other platforms supporting independent advisors.

In the coming months, the number of breakaway brokers is expected to grow due to aggressive recruiting by broker/dealers and custodians anxious to capture and administer assets managed by these breakaway brokers. The most powerful distributors will be those that do the best job of recruiting breakaway brokers.

### Wirehouse Rep Movement in December 2008

Bank    Discounter    Independent    Institutional  
Insurance    Mutual Fund    Regional    Wirehouse



Source: Discovery, January 2009

The expansion of distribution beyond wirehouse B/Ds to include independent advisor custodian platforms is slowly becoming visible. According to a Jan. 25, 2009 *Investment News* article, in the first nine months of 2008, **Fidelity** raised \$9 billion from breakaway brokers. At **Schwab**, \$13 billion (22%) of the \$60 billion of new assets gathered from independent advisors in 2008 came from breakaway brokers.

Mutual fund companies, aware of this trend, are realigning their sales efforts to broaden their distribution focus beyond wirehouse B/Ds to include trading platforms and custodians that support independent advisors. To continue to build existing relationships and effectively target new business, it will be essential to have tools and technology in place to track and synchronize an advisor's whereabouts with existing sales systems.

### Getting to Know the Financial Advisor

While most agree that the rules of engagement for distributing mutual fund products are changing, few fund companies have developed a segmentation approach built on understanding financial advisors' sales behavior and then delivering products and services that align with how advisors run their practice. A recent research report by **kasina**, a leading consulting firm in the area of mutual fund distribution, revealed that 67% of mutual fund companies are not segmenting advisors to support the sales and marketing of their products. **kasina** also reported that advisors' main complaint about mutual fund wholesalers is their lack of understanding about their specific businesses.

*Gaining a better understanding of advisors through more detailed market segmentation is crucial to sales success.*

	Traditional Distribution	Evolving Distribution
Primary Distribution	Wirehouse & Regional B/Ds	Select B/Ds & All Independent Advisors
Sales Team	National Accounts, External & Internal Wholesalers	National Accounts, Select External, Hybrid & Virtual Wholesalers
Sales & Market Data	Installed CRM System	Web Based, Integrated Sales/ CRM Tools
Data Sources	T/A & Select Wirehouse Platforms	T/A, Select B/Ds & All Independent Advisor Platforms
Market Data/Analytics	Limited to Nonexistent	Sales & Market Data Integrated with Predictive Analysis Modeling
Sales Tracking	Manual Process & Fragmented Data	On Demand Integrated Sales, CRM & Market Analytics

Today, the total number of independent advisors (112,000) exceeds the number of B/D advisors (registered reps) offering funds through wirehouse firms and regional broker/dealers (92,000), according to a recent report from **Tiburon Strategic Advisors**. To develop effective marketing strategies and programs, sales managers must take a closer look at the broad cross-segment of financial advisors and understand the differences between a traditional wirehouse advisor and an independent advisor.

Some of the criteria to be considered when segmenting financial advisors should include:

- What types of products they use today (load versus no-load)
- How they are compensated (fee-based versus asset-based)
- The customers they support (high-net-worth, institutions, Boomers, Gen X & Y)
- Trading platform for clearing and custody
- The licenses they hold (CFP, Series 7, Insurance)

Smarter segmentation starts with access to detailed transaction information for each advisor. This can be gathered from the clearing firms and trading platforms that support those advisors. The next logical step is to merge advisor trading information with market and demographic data to develop profiles of a firm's best advisors in each segment. These profiles can then be used by wholesalers to customize sales and service offerings and to target the most likely advisors who will use their products.

Taking it one step further, advisor trading and market demographics can be applied to model specific advisor patterns to uncover key drivers of behavior and deliver predictive insight to sales opportunities.

## Building a Model for Future Success

Mutual fund firms are beginning to react to the market dy-

namics by reducing the number of external wholesalers in the field, while adding internal telephone and virtual wholesalers. Many firms have created hybrid wholesalers who work internally, with periodic visits to key clients.

The hybrid wholesaling model fits especially well with independent advisors who are far less likely to want in-person visits than wirehouse brokers. However, the growing dependence on hybrid wholesalers will require improved sales and market data to offset the loss of personal relationships that many external wholesalers built over the years. To operate effectively and win customer loyalty, hybrid wholesalers will need to understand the business they are servicing and pursuing and have access to detailed market information about the fund's clients and prospects.

**Smarter sales tools, web-based technology and integrated information services can turn today's pain into tomorrow's gain.**

**Mr. Frank Polefrone**, Senior Vice President of **Access Data Corp.**, is responsible for product development and marketing. He also has product management responsibilities for distribution solutions.

**Access Data Corp.** is a leader in enterprise reporting and data management services for the financial services industry. Today, leading mutual fund firms deploy **AccessData SalesVision®**, an enterprise platform for distribution, finance and compliance. Access Data's software as a service (SaaS) approach is easily implemented to integrate sales and asset results with CRM systems. Minimal internal support is required and predictable monthly service fees mitigate financial risk. For more information, visit [www.accessdc.com](http://www.accessdc.com) or call 888.799.1744.