

Guest Column

Selling RIAs On Your Strategy: The Double Marketing Challenge



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By Bruce Frumerman, Frumerman & Nemeth

RIAs—particularly the independent registered investment advisory firms who do not invest solely using brokerage firm platform offerings—are one of the key target markets for alternative strategy money management boutiques. Successfully winning them over, however, requires meeting a double marketing challenge.

Over the three decades my communications and sales marketing consulting firm has been working with both alternative strategy money management firms and independent RIA wealth management firms as clients we have seen firsthand, time and again, what the occasional surveys of RIAs state.

There are some RIA wealth management firms (unfortunately, you cannot buy a list of them) that want to bring non-core investment recommendations to HNW and UHNW clients that have different characteristics than their core portfolio holdings.

To Win Their Allocation, Justify, Why You?

These RIA firms appreciate the potential upsides of allocating to such alternative strategies – uncorrelated returns to provide diversification and a hedge against core equity and fixed income holdings, and to enhance a portfolio's total returns. However, there is a client-facing challenge for the RIAs: they need to be able to effectively communicate why, beyond a money manager's past performance record, they are recommending that manager's particular strategy. Note I said strategy—which is how the manager or firm invests—not investment type, which are asset allocation categories such as domestic small-cap equity, long/short, event driven, distressed debt, PE and managed futures.

So many RIAs have vented frustration at not being given, by the money management firms pitching them, both the information the RIAs need to do more than just a cursory due diligence skim about

an investment strategy on offer, and the appropriate content they require to retell to their own clients why they are asking for authorization to allocate to a particular money manager. Make this too big of a hassle and RIAs will pass you by and favor a competitor who makes their life easier.

Consider this: part of the management fee an RIA firm client pays is for the RIA to make asset allocation recommendations and part of the fee is paid for the RIA to conduct the due diligence on prospective portfolio managers and their strategies. To earn the fee for due diligence and manager selection, the RIA must be able to communicate to its clients how the portfolio manager invests and why they buy into that approach.

Justifying the advised allocation to a specific money manager's strategy both helps communicate how the RIA is acting on a fiduciary basis in making the recommendation and teaches the RIA firm client what he or she needs to know to appreciate the potential added value of the particular money manager and investment strategy their RIA is asking permission to allocate to.

How To Justify, Why You?

This leads us to meeting your investment boutique's double marketing challenge in pursuing RIA firms as clients. First, you need to sell the RIAs on how you invest. This is step one where they are conducting their due diligence on your firm, portfolio manager and the strategy on offer. Then, you need to equip them with the content they will need in order to educate and persuade their own clients to understand and buy into their RIA firm's recommendation to make an allocation to you. To do this you need to deliver content that provides a script the RIA can use to retell your firm's story in a compelling way and without messing it up.

Data on performance and risk characteristics do not provide enough information for selecting and recommending one money manager over another. That content delivered in performance tear sheet or flipchart marketing collateral is used by the RIAs only to create a short list of money managers and strategies to consider.

The additional content they look for is what my firm refers to as the Story Of How. How does your firm think? Specifically, what are your investment beliefs and what is the process you follow to assemble and manage your basket of holdings? This is what differentiates one money manager from another, and when your firm becomes known for these things it will have established a brand identity. Achieving this requires figuring out how to deliver this information in a cogent, compelling and linear storyline. This is important because people can best recall a story that has a defined beginning, middle and end. And this is what the RIAs need to educate and persuade their clients that their recommendation to allocate to your strategy is sound.

Your firm's Story Of How content cannot fit into a flipchart because it is paragraph based content detail, not abbreviated bullet point text. So, it belongs in a brochure format marketing document. This important piece of marketing collateral will help your money management firm meet your double marketing challenge. Its content will constitute the majority of what your firm should communicate verbally in its first meeting with a prospective RIA allocator. In its written form it answers in writing the majority of what would be their subjective-based due diligence questions. Also, as importantly, it provides the RIAs with a script to use when recounting to their clients why they believe making an allocation to your strategy is a good, and defensible, decision.