

Institutional Sales Professionals – Facing a Whole New World

*By Charnley & Røstvold, Inc.
2012*

“Knowledge must continually be renewed by ceaseless effort, if it is not to be lost. It resembles a statue of marble which stands in the desert and is continually threatened with burial by the shifting sand. The hands of service must ever be at work, in order that the marble continue to lastingly shine in the sun. To these serving hands, mine shall also belong.”
~ Albert Einstein, 1950

Precipitated in large part by the Financial Crisis of 2008, the role and expertise of the institutional sales professional have evolved – from benchmark-centered product sales to a consultative approach that focuses on client outcomes. As the institutional investment world gained distance from the Financial Crisis of 2008, the smoke of scorched markets cleared to reveal a whole new complex world for fiduciaries and the managers who serve them. The haunt of single-digit returns, illiquidity when you most need liquidity, increasing correlations among assets, and increased volatility give rise to potential short-falls in objectives and greater challenges in closing funding gaps for many.

Institutional investors need to work with managers who are knowledgeable on capital markets worldwide, understand risks and can offer solutions to solve their needs. Those needs vary – encompassing absolute returns, alpha, true diversification, liquidity, volatility reduction, income, reduced funding gaps, transparency, asset-liability matching and/or inflation protection. Success for the institutional investor in today’s markets requires broader investment knowledge and skills from the institutional sales professionals.

“Buckets and Boxes – Let’s Fill Them!”

Prior to the Financial Crisis, institutional salespeople predominantly represented products – such as Large Cap Value, Small Cap Equity, International Growth, Core Fixed Income – to institutional investors who had mapped out fairly rigid asset allocation buckets and style boxes to be filled with defined investment products. For the most part, consultants and institutional investors knew exactly what buckets and boxes they were looking to fill, and would meet with those institutional salespeople who had the products to fill them.



Benchmarks were well defined. Relative performance drove business. Agendas were straightforward. Managers simply let prospects know which buckets or boxes they inhabited, how they fared compared to other managers in those buckets or boxes, and how they would be able to repeat their investment successes. Sales and communication processes were nearly formulaic. The Four P's dominated: Philosophy, Process, People and Performance. If the "product" managers didn't prove to be "good" (outperforming benchmarks and peers), then they would be fired and replaced by "better" product managers in those buckets and boxes.

Many managers' products, however, did not fit in the buckets or boxes. Some, in order to grow assets, either forced their products to fit or launched products that did. Others left the confines of the traditional institutional investment world and moved into the more receptive Endowment, Foundation or High Net Worth realms. A few pioneers revolutionized communications with the institutional investor market – identifying what they perceived to be the real needs for institutional investors and communicating why something outside of buckets and boxes may be better solutions. This generally proved to be a hard sale.

“Needs and Solutions – Let's Meet Them!”

Once the clearing smoke of the Financial Crisis revealed a harsher reality, the messages raised by these few voices began to ring louder and truer. Standard 60:40 asset allocations and benchmark-investing were not right for all investors. Almost overnight, institutional investors and fiduciaries started shedding traditional asset allocations and style box methods to explore what was really needed to achieve successful investment outcomes.

Simultaneously, globalization leading to expanding investment markets, innovation leading to new instruments *and* new markets, and the inspired vision of those with proven investment prowess brought new solutions to the forefront. The old model of selling an investment firm's history, AUM size, "The Four P's" and products became less effective. The challenge became how to position investment offerings in context of the dynamic, newly appreciated needs and goals of institutional investors.

This new practical world of understanding the real purpose of an asset pool, of managing the real risks of an investment program and of capitalizing on ever-expanding investment opportunities requires insight, experience and thought. Thus, the evolution of institutional sales professionals from "product sales" to "consultative sales."



“The Hands of Service”

What does “consultative sales” mean? Many professionals are already successful at the consultative sales approach. The attributes of the evolved institutional sales professional include the following:

- ***Expert investment knowledge.*** An MBA, CFA and/or minimum ten years in-depth investment industry experience are mandatory, as evidenced by the demand for former consultants and/or product specialists to serve as client service or sales professionals. Knowledge must expand beyond a single style or asset class, and demonstrate a strong grasp of the risks and the numerous competing solutions facing institutional investors. The sales professional needs to be conversant on correlations, liquidity, risk budgets, leverage, hedging, different financial instruments and leading-edge solutions. Remember, time is limited, information overwhelming and insights valued.
- ***Strong probing and listening skills.*** Client service and sales professionals must be able to ask the right open-ended questions to elicit objectives, preferences, objections, concerns, biases and opportunities. The ability to ask the right questions at the right time, and respond appropriately, demonstrates to the client or prospect the value of working together. Strong listening skills earn respect. They also are helpful in qualifying prospects.
- ***Empathy.*** A sales professional must know what actions would be most worthwhile for the buyer and when. Premature product selling or asking for the wrong actions can regrettably mean no more meetings.
- ***Insightful, personalized follow-through.*** There should always be a follow-through action. And it is not enough to send a rote thank you letter attached with performance information. It is not enough to send a social thank you note mentioning kids, hobbies or vacation spots. What challenges are absorbing the time or concerns of the client, prospect or consultant? What would help that person to tackle those challenges?
- ***Representation of the client/prospect/consultant within the firm.*** In today’s highly competitive market, everyone needs to elevate their skills in communicating with clients, prospects and consultants. Consultative institutional sales professionals effectively convey and disseminate the priorities and concerns they learn in the market or from individual prospects within their firms. Investment professionals who are already well



versed in the prospect's needs and biases when they meet can progress the prior conversations between the prospects and the sales professionals to bring highly focused, relevant content to that client, prospect or consultant.

As Einstein challenged in 1950, "Knowledge must continually be renewed by ceaseless effort..." The changes in our industry are rapid and are continuing. It's an exciting time to be a part of the institutional investment world, but not a time to stand still. It is a time to learn, to develop, to evolve. It is a time to keep our hands of service hard at work.

Charnley & Røstvold, Inc.
31401 Rancho Viejo Road
Suite 102
San Juan Capistrano, CA 92675
949.487.3500
cr@candr.us
www.charnleystvold.com

