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Guest Column

Blurring Lines Between Institutions & RIAs Means Opportunities For Emerging Managers

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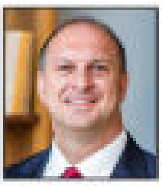

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Until recently, the challenge for emerging asset managers seeking to grow assets among institutional investors and RIAs was developing and executing a two-pronged approach because they are essentially two different market segments with distinct needs and objectives.

However, as the investment landscape reshapes, the two approaches are beginning to converge, giving boutique and emerging firms the opportunity to scale their resources across both channels, which has the potential to substantially increase assets under management.

Historically, There Have Been Clear Differences Between the Two

To engage institutions with their focus on performance and risk management, asset management firms have used a proactive, data-driven sales outreach while also relying on inbound RFPs. However, winning RIA business typically involves a plodding marketing approach, using traveling wholesalers to leverage relationships and generate interest in their strategies and funds.

While communication with institutions emphasizes the manager's investment philosophy, process, and historical performance data, the focus for RIAs shifts to the manager's unique value proposition, thought leadership, and how it aligns with the RIA's database.

Limited Resources and Scale Has Meant Marketing to One or the Other

These are two very distinct approaches. Firms seeking to capture assets from both markets would need to maintain two different marketing and sales templates, with an internal sales team for institutions and an external sales team for RIAs. This is very inefficient, to say the least.

Alternatively, firms could concentrate their resources by targeting one market segment over the other. But that would mean leaving at least half of the investable capital on the table. According to Cerulli Associates, retail client channels are growing at a faster rate than institutional client channels, reaching a 50/50 split in market share in 2021. Another report projects that retail channels will account for two-thirds of assets under management by 2030, up from 45% in 2014.

It could be a strategic mistake to completely ignore a market segment overseeing half the assets under management. However, trying to manage two separate marketing and sales strategies could be a bigger mistake, especially if they are siloed off from each other. That would be a tremendous waste of resources, with no opportunities to draw lessons between the two.

The Lines Between Institutions and RIAs Are Blurring

While there are differences in market focus, messaging, and communication styles between institutions and RIAs, the lines are blurring with more firms adopting similar approaches to engaging both. Thanks to an evolving landscape, RIAs are becoming more sophisticated in their investment options, allocating more capital to alternative investments – a space traditionally dominated by institutions.

In addition, as RIAs manage increasingly larger portfolios, they are adopting a more institutional-like approach, demanding more due diligence, and data-driven insights from emerging managers.

So now, managers must expand their value proposition for RIAs beyond the "new and innovative" angle to demonstrate a strong track record and tout their risk management—just as they've always done with institutions. Firms can now leverage the sales and marketing collateral developed for institutional sales throughout the RIA channel.

By developing a solid core message around their investment philosophy, risk management, and performance, emerging managers can communicate effectively with both institutions and RIAs, avoiding the need for separate marketing strategies. While the core message can remain consistent, firms might emphasize different aspects depending on the audience. For example, when communicating with RIAs, they might highlight their unique value proposition and client fit while focusing on track records and risk management for institutions.

Marketing Approaches are Converging, Creating Scale and Efficiency

As a matter of practice, emerging managers have targeted RIAs utilizing content marketing, digital marketing strategies, PR, and engagement data. In recent years, an increasing number of managers have leveraged those same resources and capabilities across the institutional channel, albeit with messaging tailored to the distinct needs of the channel.

In addition, with the rise of data analytics platforms and industry resources, emerging managers have more access to performance metrics and industry benchmarks, making data a key element in their communications to both institutions and RIAs. Firms that encourage their retail and institutional sales teams to share data and resources can help each side improve its analytics efforts while making them more efficient.

Though the data for institutions and RIAs may differ — for example, the granular data available on RIAs isn't available on the institutional side — a growing number of firms are combining efforts by using the same customer resource management systems for both channels. Many firms are now rolling up data analytics for both channels under one team of data staffers,

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reducing duplication of efforts and wasted resources. Equally important, it will make identifying opportunities to share resources or collaborate easier.

Overall, efforts to join forces between retail and institutional sales teams to coordinate data and analytics initiatives will drive more sales, according to a survey of heads of data analytics and business intelligence at 26 firms conducted by Ignites Research.

Slowing Institutional Growth Will Accelerate the Trend

A key factor driving this transformation is the slowing growth of the institutional market. The slowdown in asset flows can be attributed to the freezing and termination of corporate defined pension plans, more advanced algorithms, and the industry's embrace of alternative investments. Fewer assets mean less need for sales staff.

The sales staff that remains or is hired must be leveled up in terms of knowledge, skills, and credentials to deal with more sophisticated products and technology, creating a higher barrier to entry while forcing out experienced sales professionals.

Many of those salespeople are finding their way to the retail side of the business, with firms actively engaging with the RIA and family office channels. Those salespeople who choose to stay on the institutional side must reinvent themselves by learning new products, sales skills, and technology in their role.

Conclusion

The convergence in marketing strategies reflects the changing investment landscape and the growing sophistication of institutional investors and RIAs. Emerging asset managers who successfully navigate the nuances of marketing to both will gain a significant edge. By developing a marketing approach that resonates with both RIAs and institutions while emphasizing different aspects of the target audience, their strategy becomes scalable, creating efficiencies while driving sales.