Corner Office Views

CERULLI
ASSOCIATES

Corner Office Views

Timely Insights to Inform your Business Strategy

Lead with knowledge and perspective.
Connect with secular trends impacting financial services, interpret what they mean for your business, and drive new opportunities. Cerulli's Corner Office Views provides market-leading insights and tangible takeaways for senior executives seeking to strengthen and scale their business models.

About the Author

Ed Louis
Senior Analyst,
Intermediary

Ed is a senior analyst in Cerulli's Wealth Management practice and leads research for the U.S. Intermediary Distribution report. His research focuses on distribution strategies for retail asset management products sold through financial advisors, advisor product use, and portfolio construction trends.

Prior to joining Cerulli Associates, Ed worked as an internal wholesaler at Wells Fargo Asset Management. There, he spent nearly a decade working with financial advisors in the wirehouse, independent broker/dealer, and RIA channels.

How Is COVID-19 Changing U.S. Salesforces?

Internal wholesalers and hybrids will comprise a larger share of headcount

Key Implications

- Responding to the COVID-19 crisis has forced asset managers to commit to embracing technology in ways that many have been highly resistant to up until this point.
- Internal wholesalers and hybrids will comprise a larger share of headcount, as technology has magnified the impact those roles are able to make within a territory.
- In a virtual environment, wholesalers must establish rapport and add value within a truncated window of time.

Embracing technology

Responding to the COVID-19 crisis has forced asset managers to commit to embracing technology in ways that many have been highly resistant to up until this point. Operating during the pandemic has placed internal, hybrid, and external wholesalers on a level playing field in terms of how they can interact with advisors. Social-distancing measures have moved all interactions with advisors to the phone or online, temporarily converting all wholesalers into internals.

Meanwhile, nearly all asset managers agree that technology has increased the viability and cost-effectiveness of hybrid wholesaling teams. Almost 70% of Tier-I firms plan to increase their hybrid wholesaler headcount. And across firms, the top priority for distribution executives is shifting more resources to the internal salesforce (78%). This places incredible pressure on externals to deliver results, particularly in the face of distribution costs that have been rising. From 2015-2020, average strategic market cost for distribution teams in the wirehouse channel alone rose by 64% to reach more than $600,000.

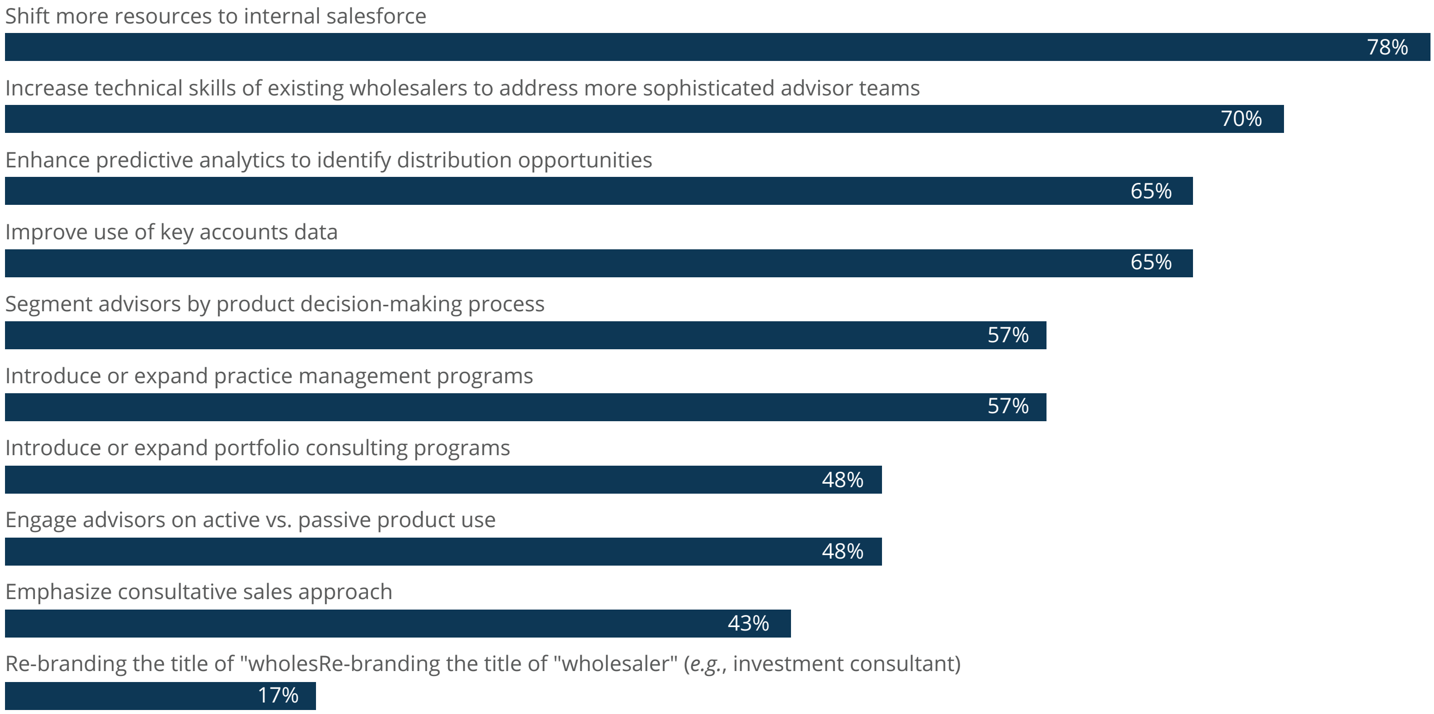
Post-pandemic, the line between external and hybrid wholesalers will remain blurred. It is highly unlikely that external wholesalers "remain" internals or even become hybrids who divide their time evenly between being in the office and being on the road. However, the evolutions forced by the current environment will not simply disappear.

As one head of distribution frames it, "If 30% of FAs don't go back to the office, are wholesalers actually going to visit people's homes?" While in some cases the answer will be yes, as many wholesalers who have covered independent advisors can attest, the result will be that wholesalers will be using a blend of in-person and web-based meetings to connect with advisors.

Wholesaling Strategies, 2020

Source: Cerulli Associates

Analyst Note: Distribution executives were asked which wholesaling strategies they plan to pursue in the next three years. Responses represent those that indicated a strategy was a moderate or major priority.



There had already been a shift underway toward a smaller average number of in-person advisor meetings. One distribution executive tells Cerulli, “RIAs want the fewest meetings, but they’re all sliding. If you see a client once a quarter, you’ll probably see him 2 times in person and 2 times on a video call or refined phone call.”

In addition, wholesalers must establish rapport and add value within a truncated window. As a distribution executive tells Cerulli, “A normal meeting with an RIA might run 45 minutes, but we try to cut this down to 15 or 20.”

Moreover, the fact that all activity has been forced to go digital means that there’s now more noise to cut through than ever before. In 2019, advisors reported averaging 17 email interactions with wholesalers a week and found just 2 of those (13%) impactful. The number of emails that advisors receive has increased exponentially, especially as not only asset managers, but all their service providers are attempting to deliver forms of thought leadership and support. This makes it both harder and more important to stand out than ever before. Part of this includes determining the proper pace of messaging.

As one head of distribution shares, the initial days of the pandemic drove home the need to have an official communication plan. After making a concerted effort to provide advisors with as many market insights as possible, “what we realized after a week was that we were sending too much out. We heard from advisors that we were cutting through, but they were getting bombarded with information from other wholesalers.”

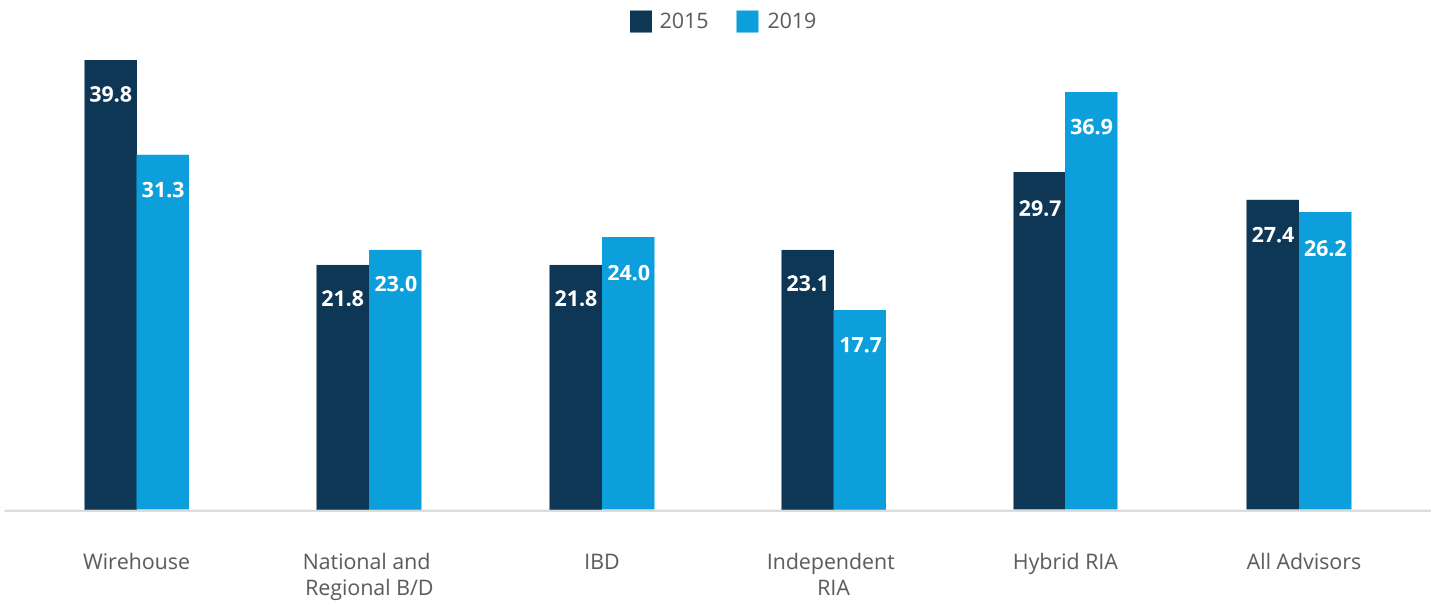
This led to a decision to create a consolidated email that was sent to advisors at the beginning of each week highlighting key points, opportunities to engage with research personnel, and ways to access thought leadership pieces. This also created room for wholesalers to reach out to clients with more targeted communications.

How will virtual communications impact sales efforts post-pandemic?

Advisors: Average Number of Weekly Conversations with Wholesalers, 2015 vs. 2019

Sources: Cerulli Associates, in partnership with Sequoia System International, the Investments & Wealth Institute (formerly IMCA), and the Financial Planning Association® (FPA®)

Analyst Note: Effectiveness of wholesaler interactions represents the percent of weekly interactions with wholesalers that advisors reported as meaningful.



The improved coordination that has been frequently discussed over the past several years, however, is no longer optional. Marketing, sales, data analytics teams, and subject-matter experts need to be in alignment to effectively deliver messaging and client service efforts.

In conversations with Cerulli, while distribution executives appreciate the effectiveness of externals, a growing number of larger firms wish to dedicate these more expensive resources toward their largest opportunities. In these cases, hybrids and internals would be responsible for coverage of other segments within the territory while the external coordinates efforts. More than half (53%) of externals report that their internal partners have an informal sales goal and nearly one-third (31%) report that their internal holds solo meetings with clients.

As the model for wholesaling continues to change, distribution teams will also continue the trend of shifting larger portions of wholesaler compensation away from focusing on gross sales and instead toward other factors aligned with the longer-term viability of the firm. Bonuses based on factors like net sales or firm profitability, etc., currently account for 17% of wholesaler target compensation.

> If external wholesalers no longer need to travel extensively, can they still command the same premium in compensation that role has enjoyed for decades?

Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

Contact us to learn more:

info@cerulli.com | www.cerulli.com

CERULLI ASSOCIATES

Research | Analytics | Consulting

info@cerulli.com | www.cerulli.com

United States

699 Boylston Street
Boston, MA 02116
United States
+1 617-841-1011

Europe

Valiant House,
4-10 Heneage Lane
London EC3A 5DQ
United Kingdom
+44 (0)20 7645 9040

Asia

10 Anson Road, #24-15
Singapore 079903
+65 6327 4045