IGNITES EUROPE

Asset managers ramp up sales spending

The productivity of salespeople in asset management has dropped over recent years, according to experts

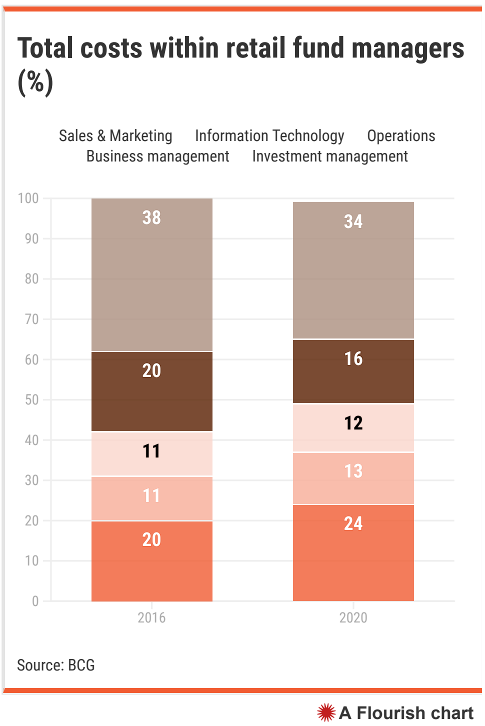
By Ed Moisson | 30 November 2021

Asset managers have increased spending on sales and marketing over the past four years as they try to stand out in a "highly competitive market", research from Boston Consulting Group finds.

The proportion of retail fund managers' costs spent on distribution has risen from 20 per cent of total spending to 24 per cent between 2016 and 2020.

Dean Frankle, managing director and partner at BCG, says the increase in spend comes as many firms "offer similar products" to retail clients.

"There is an oversupply of funds relative to those seeking them and therefore distribution matters," he says.



The productivity of salespeople in asset management – inflows generated per person – has dropped over recent years, according to Jonathan Doolan, a managing partner at asset management consultancy Indefi.

Getting "more yield" out of a sales professional has not been possible for the past six or seven years, so sales heads have been asking for increased headcount, Mr Doolan says.

"It is far more costly to retain and increase scale in increasingly polarised markets. More salespeople are needed just to tread water," he says.

Fabrizio Zumbo, associate director for European asset management research at Cerulli Associates, says asset managers are also directing additional resources to their marketing departments.

"The proliferation and commoditisation of investment products in recent years has made it increasingly difficult for asset managers to compete on price or product alone," he says.

"This has increased the strategic importance of the marketing function."

Rising distribution costs have pushed up overall costs for retail funds, BCG finds.

Overall costs have been rising faster than the income retail funds generate, resulting in higher cost-income ratios. Institutional funds, on the other hand, have seen their cost-income ratios fall over the past five years.

"[Retail] funds are more profitable, but the cost per asset raise is still higher [than institutional funds]," he says.

The shift to homeworking has reduced costs for asset managers in areas such as travel and marketing, but aggregate industry costs globally still rose by 3 per cent in 2020, according to BCG.

These cost savings are only expected to be temporary, despite firms embracing more flexible working practices, experts say.

Mr Doolan says: "One sales professional can only do so many calls and speak so many languages. Firms need local hires even if they are using [online] meetings."

Mr Zumbo says that despite the significant increase in virtual client communications over the past year, many asset managers say selling is a "better experience in a face-to-face setup".

Cerulli's latest survey of asset managers in Europe shows that more than half of firms plan to improve the specialist skills of their marketing staff, including increased hiring, "which translates into more money for the marketing budget".

Mr Frankle says some retail fund managers need to improve their analysis of sales and marketing effectiveness in order to manage costs more effectively.

“Other industries are leaps and bounds ahead of fund managers in terms of marketing effectiveness [in areas such as] social media,” he says.

Meanwhile spending on investment management for retail firms globally has fallen from 38 per cent to 34 per cent of the total, BCG finds.

Mr Frankle says spending on investment management, including trade support, has increased in absolute terms over the period but has been squeezed on a relative basis.

Spending on business management and support, which includes functions such as compliance, human resources and risk, has also shrunk as a proportion of retail fund managers’ total costs between 2016 and 2020, according to BCG’s figures.

But information technology spend has risen over the period, up from 11 per cent to 13 per cent.

Mr Zumbo says: “The increase in IT is probably due to the fact that asset managers are onboarding new technologies, a trend we have observed over the last few years in Europe.”