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Rethinking Marketing Strategy:

Extending sell cycle will require managers to develop investment storylines to maintain interest

2-Part interview of Bruce Frumerman, CEO, Frumerman & Nemeth Inc.
by Kirsten Bischoff for *Opalesque Alternative Market Briefing*

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Over the course of 2008 the hedge fund industry has decreased by approximately 1,000 funds. However, the year did offer opportunity and as Opalesque has reported, many managers were able to convert this into positive performance. As those funds begin to consider their asset raising strategies, adaptations to the new demands of investors will be a vital part of transforming passing investor interest into actual allocations.

Predictions such as the one made by UBS Wealth management global head of hedge funds Timothy Bell who recently stated "We are gonna see decline in the number of hedge funds, we are gonna see some strategies that will not work in this environment," have made asset raising seem pointless to many.

"Everybody has been hearing such bad news that even the money managers are losing some perspective on what is going to be happening down the road," Bruce Frumerman, of New York's communications and sales marketing consulting firm Frumerman & Nemeth Inc. told Opalesque. Frumerman, who is speaking at New York City's Marketing & Client Servicing for Hedge Funds conference this week, cites three reasons why hedge funds will maintain interest once the markets settle:

1. Institutional and sophisticated individual investors will continue to need products and strategies to allocate to, that offer them the potential to outperform their core equity and fixed income allocations, adding some "icing on the cake" returns to their total portfolios;
2. These investors appreciate that in the money management business, the best and the brightest often strike out on their own; and
3. Pension plans that find themselves underfunded need to take on greater investment risk in pursuit of the investment returns they'll need to become fully funded again.

Communications for an extended selling cycle

The financial crisis, the revelation of fraudulent behavior on the part of some, and poor industry wide performance will likely extend the length of the selling cycle (the cycle through which a potential investor moves from prospect to allocator). Recent investor surveys have indicated hedge fund managers are going to have to greatly increase their level of communication with both current and potential investors.

"The odds of meeting a prospect, telling them your story and having them then hand you a check are nil. It is going to take months or years to convert a prospect into an investor," says Frumerman.

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Success in converting prospects to clients will require having a well-strategized roll out of information. One of the most important necessities for managers will be a sales marketing strategy that allows for multiple points of contact, with increasing information sharing, over an extended sell cycle.

Also required is having a cogent and compelling story that is told with consistency using the most appropriate marketing tools, Frumerman observed.

The storyline needed for a Brand identity

The content that a money management firm has to communicate in its marketing materials can be broken down into three types of information: data, staff bios, and the story of how they invest, says Frumerman.

"While all of that content is important to potential investors, it is the story of how a hedge fund manager invests — his investment belief system and the process he follows in managing the portfolio — that enables a manager to both differentiate himself from competitors and give prospects the comfort factor they require to commit to investing with him," Frumerman observes. "This is a firm's 'evergreen' story," he adds, "the information about how it invests that will be as true five years from now as it is today."

A well-crafted storyline about how a firm invests enables a hedge fund to present a branded identity, rather than appear commodity-like, as most money managers are perceived.

"Branding success for a hedge fund is dependent upon its ability to educate and persuade people to be aware of, and buy into, how the firm invests," Frumerman says. "Achieving this requires developing a cogent and compelling way to best tell your investing story with consistency, applying it to your sales marketing efforts and obtaining third-party endorsement for and increased awareness of your firm's investing process," he advises.

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"In order to present a branded identity and separate itself from commodity-like competitors, a hedge fund needs to create a cogent and compelling storyline about how it invests, and this must be communicated in a manner that is sensitive to the mood and perceptions of investors in this market environment," noted Bruce Frumerman, of New York communications and sales marketing consulting firm Frumerman & Nemeth Inc. (www.frumerman.com) told Opalesque.

A more detailed explanation about the investment process is required of the hedge fund manager in 2009, Frumerman says, and a firm's communications needs to take three issues into consideration in telling that story. As he advised hedge fund managers this week at the Marketing & Client Servicing for Hedge Funds conference:

Don't Be Vague

Reasons to doubt the efficacy of a manager's claimed strategy and a commodity-like lack of differentiation from the pack are two common grounds for rejecting a money manager that we hear, says Frumerman.

"These impressions tend to be formed when the prospect is given too little — and too generic — information. The culprit is oftentimes a hedge fund's vague sounding explanations about its investment process," he notes.

Vague sounding explanations about the investment processes behind hedge fund strategies are more often the result of poor communications skills, rather than because managers are trying to keep confidential a truly proprietary element of their portfolio management, observes Frumerman. Yet a manager's lack of good communications skills is not the first thing that will come to mind for prospective investors who are presented with hazy explanations about how a portfolio is being run, he adds.

Address The Current Market Environment

Many investors found strategies that they had been invested in previously did not perform well in all market conditions, and they know that while this recessionary time is bad it is not permanent, Frumerman observed. They want to know a manager's thinking about how he plans to steer his portfolio through these uncertain times, and then how the manager plans to deal with the flat and the bull markets that follow as time goes on, he adds.

"The storylines and marketing materials of many hedge funds don't make mention of how they plan to navigate their portfolios through market recession to market recovery, but for the hedge funds that do they will engender comfort factor among prospects and further differentiate themselves from their competition," says Frumerman.

Don't Get Lost In Translation, Put It In Writing

In almost every case a prospect who is pitched in a sales meeting is going to be retelling what he knows about the hedge fund to others involved in their decision making process, Frumerman points out.

"He will be speaking to an investment committee, a spouse, an accountant or to an attorney. And they will be retelling the hedge fund's story to that person or group. So, one of the important sales missions a fund has is to reduce the odds that a prospect will mess up retelling its story," Frumerman says.

A fund's marketing materials are what tell its story when the manager is not there and are what a pitched prospect will pass on to colleagues when that fund is under consideration.

"A clear and detailed written explanation about the investment process and how the manager thinks can improve a fund's odds that it has differentiated itself from its competition and reduce the odds that the prospect will mess up retelling its story to others," Frumerman notes.

Many in the hedge fund business have opined that prospective hedge fund investors may be more receptive to what funds have to tell them in the third quarter of 2009. Hedge funds have an opportunity now to reexamine and refine the story they have to tell prospects, and how they communicate it verbally and in writing, Frumerman says.

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Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a communications and sales marketing consultancy that helps financial services firms create brand identities for their organizations and develop and implement effective new marketing strategies and programs. His firm's work has helped money management clients attract over $7 billion in new assets, yet Frumerman & Nemeth is not a Third Party Marketing firm. Bruce has over 30 years of experience in helping money managers to develop buyer-focused positioning strategies to differentiate them from their competitors; create more cogent and compelling sales presentations and marketing materials to better tell their story; and use media relations marketing and industry conference speaking opportunities to help establish a branded identity for their organization by generating third-party endorsement for the expertise of their people, the value of their services and the quality of their products. He has authored many articles on the topic of marketing money management services and is a frequent speaker on the subject at industry conferences. He can be reached at info@frumerman.com, or by visiting www.frumerman.com.