Hedge Funds and Alternatives: The Coming Marketing Arms Race

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The marketing arms race is about to come to hedge funds. And, with the Securities and Exchange Commission's landmark decision to lift the 80-year-old ban on publicizing hedge funds, and how they raise money, it may never be the same again. As Yogi Berra might say, "It's déjà vu all over again."

Once mutual funds hardly advertised, and even those that did spent a pittance by today's standards. Now of course established brands like Fidelity and T. Rowe Price advertise significantly to grow and protect their businesses, and newer entrants like Wisdom Tree and iShares use marketing to grab market share and help achieve business success. Institutional money managers, like JP Morgan, Pimco and State Street, who once considered marketing and brand management as beneath them, now invest significantly in marketing to support their institutional business as well as newer ventures like mutual funds and financial advisory channels.

It's not just advertising and sponsoring golf tournaments, of course. Social media and other internet activities play a huge role.

Marketing, by the way, is not sales, although in our business salespeople frequently like to call themselves marketers. Marketing is about brand, competitive positioning, the ongoing stream of communications that can help create awareness, trust, and confidence in you and your firm. It makes sales more effective. Marketing provides leverage to everything you have created and enhances and protects your business.

Is marketing the most important thing? Of course not. Performance is primary, and client service and sales are right up there. Marketing accrues value to your business over time, which makes marketing an ideal investment for an annuity-type business like a hedge fund.

The established fund

Do you have to join the marketing arms race? Eventually, yes. Do you want to join early or later?

Marketing can protect your position against new entrants and fuel more growth. Given your margins, the cost becomes negligible. Marketing distinguishes your brand. Enhances it. Protects it from competition.

But we're institutional! Does marketing matter? Well, yes. Brand might matter *more* in institutional than in retail. You already know this. You use brand name audit firms. You use brand name law firms. To do otherwise would raise questions.

The phenomenon of concentration of assets is about performance, size *and* brand, because the biggest do not always have the best performance, whether absolute or risk-adjusted. Marketing can make that phenomenon work for you.

Stakes are high. What will your clients think? Clients want to see that you are managing your business well, which includes managing your brand. But *how* you do it is critical. You want your marketing first and foremost to enhance your clients' relationships with you. Clients also know you are in a people business and to retain and attract talent you need to pay them appropriately and provide opportunities for growth. Which means you need business success.

BlackRock's business success has many elements, and marketing has certainly been one. They are investing heavily in positioning themselves as a thought-leader. In a relatively short time (by institutional standards) they went from a start-up to one of the largest. Marketing has been completely consistent with sophisticated investment strategies. And BlackRock's older competitors may now find themselves somewhat displaced in their once highly secure client relations.

The new fund

If you are new, either a startup or a fund that has been around for a year or two establishing a track record and now wanting to grow, marketing will be one more cost of doing business.

You need awareness. You need to be able to cut through the noise at an investor conference. You need your prime broker's capital intro people to find success when they bring up your fund to their contacts. You need analysts at potential clients and consultants to want to meet with you. When you get that precious meeting, you need to know that your presentation positions you effectively. And you need the stream of communications, from the RFP to the follow-up letters to the website to the performance reports, to get noticed, get read, and communicate what you need.

You get one shot to introduce yourself to the marketplace. At a certain point in time, if you are not successful in raising significant capital, that becomes your reality—you become the house on the street that is difficult to sell. Don't let yourself get in that position.

When does the race begin?

When a large fund embarks upon a multi-million dollar advertising and marketing campaign, competitors will "market-up." When a smaller fund devotes precious resources to marketing and gets results, others will join the battle. We live in a pretty fast moving world and in an industry filled with hyper-competitive people with resources, so it could start soon. Should you be a leader or a follower in the marketing arms race? If the ingredients are there for significant further business success—reasonable performance, a repeatable investment process, and budget—then lead. You can gain more assets and secure your competitive positioning. If you don't have those ingredients right now, then work on them—you may still have some time. Later, you won't have a choice—you will have to participate to have a long-term viable business.

So where do you start?

You are still in a regulated industry with technically demanding products. You need compliant-friendly effective marketing. So you need people who understand marketing, compliance, and investments.

You accept that marketing can provide leverage to your business, and you understand leverage—its costs, benefits, and risks—but unlike financial leverage, you can't go to your friendly investment bank and negotiate a line of marketing credit. Marketing is a process; its output is a position as well as the materials (electronic and print) and activities which express that position. It requires research, often an outsider's look at your business, enough financial market education/experience to understand your investment proposition, and the skill to get to its essence and effectively and creatively express it. Like any other desirable and valuable resource, it is scarce. Twenty years from now there will be many people with the right experience, because they will have done marketing for hedge funds. Today there are not.

ABOUT THE AUTHOR

Robert Birnbaum has been helping build investment management businesses since 1985, when he joined Vanguard after earning an MBA in Finance from Wharton. He launched a mutual fund business for Fred Alger, leveraged the institutional business of JP Morgan Investment Management through marketing (and extended their reach into new markets), led institutional sales and marketing efforts at Credit Suisse Asset Management and Columbia Management, and co-founded and served as President and COO of a global macro hedge fund. Currently, Robert leads aabalone[red]'s hedge fund practice. He can be reached at Robert@aared.com.

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