March 8, 2015

LOL: Selling in the New Era

FCG has launched its "Mugs and T-shirts World Tour" in earnest. We presented our new white paper to several firms in San Fran, this past week to several more firms in London and their CFA Society. Next week we will pass out mugs and T-shirts in Tokyo to their CFA Society. Presentations for many major city CFA Societies are lined up, so if you would like us to visit one-on-one with your firm, just let Liz know. (lseveryns@focuscgroup.com). We'd love to meet separately when we're in your neighborhood. (The paper is available on our website: www.focuscgroup.com "The Investment Challenge: Remaining Relevant through Compelling Value.")

Surprisingly, the section of the paper that has gotten a lot of attention is the section on selling in the new era. In fact, one of the San Fran firms wanted us to address that topic exclusively (they have mastered all the other topics: leadership, culture, strategy, comp, succession and talent. ☺) The firm in question is already working hard to develop a program for all their sales people on "challenger selling." Many asset management firms are doing the same. So, let me explain a bit more about this approach to selling, going beyond what we discuss in the white paper.

To summarize the challenger approach: traditional selling is relationship based, aiming to build a trusting and comfortable relationship with the buyer/client, while challenger selling aims at going beyond the comfort goal and creating a healthy tension with buyers/clients by providing them new insights about their business. Another way to think of challenger selling is that instead of asking "what keeps you up at night?" the sales person goes in with a well-reasoned hypothesis about the industry and common problems, then provides insights and solutions that are tailored to the buyers/clients. The goal of the challenger discussion is to get a reaction from the client of "Gee, that's interesting. I hadn't thought of that." One way to think of this is that challenger sellers are more interested in being **memorable** rather than **agreeable**.

The road map for achieving this outcome is as follows:

Commercial Teaching Pitch

Stage	Commentary
1 Warmer	Align and build rapport around client challenges they are facing Lead with "hypothesis": your view of what problem and solution could be
2 Reframe	Reframe and show unrecognized problem, based on collaboration with marketing (not a flash of new insight in the moment) Define the client needs rather than respond to them
3 Rational drowning	Intensify the problem
4 Emotional impact	Humanize the problem, make real
5 Value proposition—a new way	A new solution, tied to your firm's core
6 Your solution	A path to implementation: don't leave "alone in the desert"

The success of this approach depends on several of your firm's tribes working closely together. So, if your firm is troubled by tribal warfare, you'll have more difficulty implementing this approach. Specifically, marketing, sales, and investments all have to collaborate to develop insights that form a "hypothesis." For example, in our white paper we talk about Casey Quirk's piece, "Life After Benchmarks." So, your firm could brainstorm what products and solutions do you offer that go beyond the traditional benchmarks and actually address client needs? (For more on this, see our white paper or CQ's piece.)

To give readers a feel for how this approach could work, I will use FCG as an example.

1. **Warmer**: in the "warmer phase" we ask, what is a common problem that all investment firms face? For us, the answer is talent. Investment firms depend on strong talent to win in the markets. Losing good talent is a major problem for firms. The best firms are able to attract and retain good people. Many firms that lose talent are blindsided. They don't see it coming. Or, they see signs of a problem but they wait too long to deal with them. They only react when they are in crisis.
2. **Reframe**: investment firms will all agree that talent is crucial to success, so nothing new has been introduced at this point. The reframe is: early diagnosis is the key to talent retention. As in medicine, finding problems early make all the difference. That is why people have annual check-ups. The reframe for investment firms is: don't be reactive (waiting until there is a crisis), rather be proactive (catching any issues early and dealing with them). Get an annual check-up.

3. **Rational drowning**: this step involves facts and data. FCG can present numerous cases of firms that ignored their talent issues and suffered huge setbacks as a result. My personal favorite is a hedge fund, in which the CEO of the parent company asked the two leaders of the hedge fund to meet with FCG to learn more about our services. The CEO had a hunch that the leaders of the hedge fund might be dealing with some personal issues that were going untreated. During the FCG presentation, the two hedge fund leaders busily worked their smart phones and rarely looked up at us. Eventually, I said, "of course, some people don't think culture is important to investment firm success." Both of the hedge fund leaders, still looking down at their devices, put their hands in the air signifying, "that would be us!" The CEO and I smiled at one another and realized that the pitch was going nowhere. The outcome? Within a year, the hedge fund collapsed because the two leaders got into a power struggle that couldn't be resolved. FCG has countless stories like this.
4. **Emotional Impact**: the goal of step 4 is to take the buyer/client from "interesting, but that doesn't really apply to us" to "wow, that could happen to us." The stories that are useful here are the ones that FCG has seen with clients in which they were completely blindsided by the loss of key talent. And there are many. We well remember congratulating a CEO about the recent successes that his firm had enjoyed only to learn that a week later his crown jewel investment team was lifted out by another firm. In another case, the CEO was aware that his lead PM was unhappy about current circumstances but assumed that the trouble would blow over. Within a few weeks, the lead PM was lifted out with nearly all of the team. The two firms in question are still battling it out in the courts. A very recent situation involved a younger team of small cap managers who believed they should be given more freedom to run their product in their own way. About 8 months after the trouble started, FCG was called in to help patch up the situation. By then, the younger investment professionals were beyond redemption: they wanted out. The situation had gotten too toxic in their view and they wanted a fresh start. In all of these cases, there was a point in time when the teams were performing well and the firm leaders assumed that it would continue indefinitely. In fact, the trouble was already brewing, yet the CEOs were still blindsided.
5. **A New Way**: here is where the seller introduces a solution. In this case, not FCG's specific solution, but a general solution. In medical terms, the case for early diagnosis and treatment. Firms that conscientiously review their talent and comp each year and check in with key personnel are far better off than the ones that assume everything is fine. The best practice that offers a solution is to be proactive around talent. Typically, if a problem is brewing, a third party will have better access to it than the leaders who have created it.
6. **Your solution**: this is the final step in which you show the buyer/client that your solution is better able to address the problem than anyone else. Notice, you wait until step 6 to trot out your company's offering. FCG has several proven diagnostics that allow for early detection of problems with a firm's talent. Through surveys and interviews, FCG can deliver a "health report"

on the various teams and key opinion leaders in the firm. If the "health report" is fine, great! If not, you have a much chance of treating the problem because you've discovered it early.

The authors of the Challenger Sale summarize this 6-step process as follows*: you've taught the client something new and valuable about their business (which is what they were looking for from the conversation), in a way that specifically leads them to value your capabilities over those of the competition (which is what you were looking for from the conversation.)*

I find this approach intriguing. In our case at FCG, we can offer many different hypotheses, not just this one about losing key talent. For example, what about Red X's? (Red X's are the brilliant but difficult stars that populate the investment industry. See our paper on the website for more.) Early diagnosis of Red X's can also be invaluable. Many firms hang on to Red X's because they do deliver incredible value. But at what cost? We know a PM who has created a brilliant track record in long-only equity portfolios, but has turned over the analyst staff 200% in two years and even more in a few targeted sectors! No one can work with him. The environment is so toxic under his leadership that many analysts leave without new jobs lined up. Early diagnosis in this case would allow for installing a co-PM (they have such a talented person on staff), which then allows senior management to tell the toxic PM: shape up or we'll move you out. Or another toxic Red X who was the CIO. He was deemed too valuable to fire because the firm would lose many clients. Well, they ended up losing clients anyway because the two most talented PM's left, went across the street, started their own firm and took the half the clients with them. All because the CIO was a jerk. In both cases, early detection and treatment would have greatly benefitted the firms in question.

So now that you get the hang of this, how does it work for your firm? What is a hypothesis you could put forward to challenge your buyers/clients? If you are a single product, long-only, active equity manager, what could you say to clients? Here's one thought. Assuming you have identified the edge that you have in the markets—and hopefully you have, or else <u>**that**</u> is your first piece of business!—then you could state that as an industry condition all buyers/clients are facing the same problem: finding consistent alpha producers. After you've "warmed up" the buyer/client with an awareness that alpha is hard to find on a consistent basis, you then provide a reframe: no firm will find alpha if they are battling short-termism. If the asset manager is publicly traded or owned by a parent company who insists on quarterly results, then—you could argue—they are doomed to mediocrity (or worse). Your firm's pitch might be: we are independent, so we can truly take a long term perspective. This long term orientation allows us to produce alpha consistently over a cycle. This is the pitch that one of our successful clients uses with good results.

Or consider a multi-product firm that can offer more sophisticated solutions. They can warm up the buyer/client with a statement about the new demand for complete solutions rather than single products. The reframe can be: in the past, providers aimed at beating benchmarks, whereas we embrace the new approach that YOU are the benchmark. So, we'll design a customized approach based on your specific needs (think goals—future liabilities-based) and create your solution with our products, or at least those that fit. Again, we know a client who is offering this reframe and using the challenger approach with good success.

As one who loves thought leadership, I find this whole challenger approach fascinating. What is your hypothesis? What is your reframe? What is the unique insight that you are offering? Regardless of whether or not you adopt the whole challenger sales approach, you can certainly play with these questions. A recent Greenwich survey indicates that 56% of the drivers of relationship quality are service, NOT investments. Our experience supports this finding: the New Era in investments is about both client service and investment performance. Finding new and better ways to interact with clients is crucial to success going forward. As always, give us a call if you wish to discuss these ideas further.

Meantime, look for us to be in your city soon on the “mugs and T-shirt” tour, as we discuss the new white paper. (Oh, and just to be clear: we don’t actually have mugs and T-shirts, so we’ll save you the trouble of contacting Liz to get them! ☺)

Curiously yours,

JW