Building an Institutional Investment Management Consulting Business

A Few Words of Advice

BY BARRY MENDELSON, CIMA®

Anyone who has tried to build an institutionally oriented investment management consulting business can confirm that this is a competitive playing field. A lot of talented people are out there competing for large revenue-producing investment pools. Having begun my consulting career in the late 1980s, I can tell you that today the competition is more formidable than ever—but it is a different space now and demands more careful planning and business strategy if you are to succeed. Time spent assessing how to approach the development of an institutional business is vital to success.

The institutional investment management consulting industry that emerged in the post-ERISA 1970s was for years the province of a few large firms with dominant, vertically integrated brands. They had reputation, clientele, dedicated staffing, an information advantage, and years of lead time. Times and opportunities have changed radically in the past 10-15 years, however, and have included the following developments:

• Participant-centric defined-contribution plans emerged to dominate defined benefit plans.
• Access to critical manager information and performance measurement software became inexpensive through technology.
• Specialist support firms evolved to provide sensible outsourcing business options for breakaway consultants who wanted to start their own firms.
• Organizations such as IMCA—where training, professional networking, and informal mentoring are available—have flourished. These industry changes made it challenging for some of the legacy consulting brands to stay relevant and profitable, especially with their smaller institutional accounts and previous opportunities. What happened? These larger firms were acquired, splintered, exited the business, were forced to move up-market, or became a smaller less-meaningful part of a larger more-diversified organization. While some of the pioneers of investment consulting still enjoy prominence and success today, particularly with the largest of institutional relationships or in other related businesses, a universe of smaller entrepreneurial investment consulting businesses has evolved to fill the void left by these industry developments.

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But building a consulting business today that serves institutional accounts from a very large universe of small- and middle-market opportunities in the United States requires a big-picture view, knowing how to acquire and integrate resources to serve these types of clients, and the foresight to make strategic changes so you do not become unintentionally obsolete. It’s not necessarily easy and it requires vigilance. In essence, you must be able to replicate and improve upon what the pioneers of the industry could do through their own vertical integration.

So, if you are one of the many consulting entrepreneurs trying to carve out a space in the institutional world, what must you consider? The answer depends on whom you work for: a larger organization or for yourself in your own business. If you work within a larger organization such as a brokerage firm, an insurance company, or an accounting firm, you most likely have most or all of the resources and support staff you need to be successful; that is the upside. The downside is that those very same resources may not be to your satisfaction and you may not have the latitude or capital you need to change or improve upon them. If you are in your own firm or are contemplating going out on your own, you have an entirely different set of considerations to resolve. Much of the remainder of...
The Vertical Integration Decision
The first and constant consideration for the institutional consulting entrepreneur must be the degree to which your firm needs to be vertically integrated. Are you going to be entirely self-sufficient so you control each and every business process and all data from beginning to end (as some people prefer) or can you share that responsibility with other support firms? Are you going to develop and maintain software programs and modeling tools and materials for your analytical, client servicing, and marketing needs (e.g., presentations, quarterly performance measurement reports, manager due diligence, etc.) or are you going to outsource this manufacturing to specialist support firms that in turn will private-label their output for your firm, or are you going to do something in between?

In the pioneer days of the 1970s, 1980s, and 1990s there was little choice but to vertically integrate. You had to do everything yourself because there were no sources of help in the marketplace. That no longer is true and in fact IMCA has all kinds of information and IMCA members receive preference pricing on potential vendors who can help your (new) business.

The decision about the degree of vertical integration you need relates to your corporate branding and how you will position yourself in the marketplace. But it relates more immediately and practically to the following:
- The degree of difficulty in managing a business with a lot of internal moving parts
- The costs of financing such a business (e.g., salaries, benefits, office space, people management, organizational structure, ownership sharing, etc.)
- The recruitment and retention of a professional staff
- Always staying aware of new offerings in the marketplace, which can help you manage your costs, improve your offering, or streamline your business process

For practitioners in less-urban settings, a vertically integrated approach to an institutional consulting business may be entirely impractical. Frankly, in today’s tight job market the same can be said for the more-urban practice. If you choose, you can outsource many of your back office investment management business needs—that is a live option for the firm that prefers or needs to start small so you can decide what to bring “back in-house” over time, if at all. Outsourcing solutions often are less expensive, readily available, and highly customizable and they include everything from Web site development to institutional-quality investment manager research. You ultimately need to settle on an approach to conducting your business that makes sense to you, plays to your strengths, and meets your financial needs. In general, my experience is that it is more expensive to own and control data and systems than to outsource what you do not want to or cannot do yourself.

Developing a New Business Paradigm
There is no more important lesson to be learned than that new institutional business is often—if not primarily—won and maintained because of personal relationships with fiduciary decision makers. Speaking from personal experience, a decision on a new or first consultant by a board, committee, or corporate manager often will favor someone whom they know personally (local or otherwise) over someone whom they do not, even if the competitors are not professionally on par with each other. I have seen relatively weak technical consultants win and maintain meaningfully sized institutional accounts against better consulting firms primarily because of the strength of their relationships with key decision makers. What this should say to every practitioner, whether new and coming up the ranks or experienced and looking to improve the profile of the business with larger clients, is that vertical integration, technical skills, pride of authorship, even first-hand capabilities, unfortunately and frustratingly, can be of secondary importance to key decision makers. They want to work with people whom they know and trust first and foremost. This is a primary form of risk management that consultants must understand and honor.

Again and again I have learned that time invested in building relationships with key decision makers (time counted perhaps in years) is critical to winning in the institutional arena; therefore patience, persistence, and planning is required. You often have to be looking way into the future so you can be planting seeds for future business. These types of relationships are nearly always slow to change consultants (as they should be) and usually are obligated by contract, at least for a time, to work with their existing consultant or provider. Take note: Building relationships takes a time and resource commitment. Your marketing goal should be to create a personal connection with key decision makers and to link your professional value-add to the unmet needs you learn about from their inside perspective.

In addition to decision makers, it also is very helpful to build alliances with other firms or providers that serve your prospects (e.g., their lawyers, bank custodians, investment managers, or technology providers). These people know the circumstances of your institutional prospects as well and can share with you insights and experiences that you can use to your advantage. This strategic intelligence is an important source of information that you can use to manage your time and tailor the message about your firm’s values to the prospect’s situation. Because
nearly all marketing strategies hinge upon taking advantage of the law of large numbers, you must at the very least always be marketing by introducing yourself to and investing in relationships with decision makers and those who influence decisions.

Developing a following in institutional investment consulting by winning new business consistently involves more than simply completing a request for proposal (RFP), having impressive reports as exhibits, pricing competitively, and showing up for a presentation—you have to do that and do it well. For those who would venture into and stay in institutional consulting, there is no substitute for the personal advantage of decision makers knowing who you are, liking what you stand for, and appreciating your value-add when they review proposals.

**Conclusion**

Developing an institutional consulting practice is both challenging and immensely rewarding. However, it is not likely to be accomplished simply or quickly. The number of opportunities is relatively scarce compared with the high-net-worth market, the competition is keen, decisions are made more slowly, and often consultants with more experience will be vying for the same business you are. However, you can succeed if you have the requisite technical skills, the foresight to plan your business around your strengths, outsource wherever needed, and stay committed to building a network of relationships and alliances that can keep you in the minds and hearts of the fiduciaries that make the key decisions.

*Barry Mendelson, CIMA®, is the founder and managing partner of Capital Market Consultants, LLC in Milwaukee, WI. CMC develops custom open architecture investment management (OAIM) platforms and business solutions for financial institutions and intermediaries. He earned a B.S. from Palmer College. Contact him at barry@cmarkc.com.*