

# International Expansion for a U.S. Firm: Initial Thoughts

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# The International Proposition

- The prospect of leveraging your expertise to reach large pools of new customers outside the U.S. is tempting.
- Many U.S. asset managers have expanded overseas either on their own or as a result of having been acquired by a non-U.S. entity.
- International expansion has brought benefits to many, but not all. Moreover, it is more complicated than one might suppose or hope. Success may require your organization to adapt existing skills and gain new ones in every area. Success may not come from your „flagship“ products or even from your most familiar client type.
- Why are you thinking about expanding overseas? What are your objectives? Growth? Diversification? It is important to align your expectations with reality. If not, you may give up too easily in the wake of disappointment or completely forego a very promising expansion of your business.

# The Non-U.S. Markets: Basics

- The non-U.S. markets are big. However, even within Europe they are very heterogeneous in terms of distribution arrangements, investor risk tolerance, packaging preferences and regulation. Buying patterns are quite different than in the U.S. Sales efforts, therefore, must be targeted in terms of geography and segment.
- The entire retail market is not accessible. Guided architecture is well-established only in the high net worth segment and fund-of-fund products are popular. Captive / affiliated managers continue to dominate mass retail, although fund products are under pressure.
- With the exception of U.S. mandates, U.S.-based managers are no longer assumed to be better. Competition in most categories is intense. Fund selection can be as rigorous as in the U.S..
- Sales strategies and compensation arrangements which have proven successful domestically in the U.S. may deliver little outside the U.S. Regional servicing is essential.

# Are You Well-Positioned to Go Overseas?

1. Do you recognize that there is no single non-U.S. market as such?
2. Do your existing products have appeal outside of the U.S.? Do you have a clear record of generating „alpha“? Can your products be differentiated from suppliers already established outside the U.S.?
3. Do you have untapped capabilities that could be extended to create new products of interest to investors outside of the U.S.?
4. Which channel(s) are your strongest domestically? How relevant will that sales, servicing and administrative know-how be outside the U.S.? How important has your brand or consultant support been to your U.S. success?
5. Will your organization accept changes to meet the needs of an initially small group of non-U.S. prospects/clients? Can your organization adjust to different client/distributor/staff behavior?
6. Do you have portfolio management offices outside the U.S. whose activities might be expanded to include distribution? Affiliates whose knowledge or infrastructure you can tap?

# A Possible Decision-making Process: Stage 1

- A. Identify your existing *product offerings and capabilities* with the greatest potential interest from investors outside the U.S.. If demand is currently modest, what would trigger increased demand?
- B. Identify *geographic markets* (e.g. Germany, Austria, Switzerland) with greatest demand for your product strengths.
- C. Identify the *channels* (e.g., independent financial advisors, private banks) most likely to be receptive to your expertise; evaluate the competition, servicing, staffing, administrative & regulatory requirements and prevailing fee practices of promising channels.
- D. Determine the best *vehicles* to win business (e.g., white labelling, Lux or Ireland fund family, fund-of-funds) and their legal, administrative & staffing requirements.

# Stage 2:

- E. Test preliminary assessments in the field. Adjust ideas accordingly. If a strong, internal „champion“ of international expansion is not visible by this stage at the latest, the idea probably should be dropped.
- F. Develop *business plans* preferably with at least 2 scenarios. The plans will address issues such as staffing, office locations.
- G. Identify a few combinations of markets and channels which:
  - offer attractive risk/return tradeoff and
  - you can afford to address properly.

Proposals might be very limited in scope or very bold, depending upon the quality of the perceived opportunities, your resources and your tolerance for risk/change.

- H. Decide if you will pursue international expansion.
- I. If you decide to expand, move to implementation stage. Adjust your initial goals for overseas expansion to reflect the results of the decision-making process.

# Conducting the Analysis & Creating the Strategy

Three important contributors to the analysis and recommendations:

1. Your Staff: The decision, whether „yes“ or „no“, is more likely to be fully accepted internally and acted upon with 100% commitment if it is based on analysis in which your own staff has been heavily involved albeit with external input and guidance.
2. Independent Market Research Provider to support Steps B – C and possibly D - E of the decision-making process. They are the best source of data relating to sales/redemption activity and new products launches.
3. External Business Strategist: Insures the project is well designed and covers all material issues. Provides an objective assessment of your product expertise and your competitive position in foreign markets. Puts statistical market research results into context based on personal knowledge of actual buyer behavior. Brings experience to bear on how to win business and creating cost-effective business plans. Works in such a way that your team genuinely owns the decision and subsequent outcome.

# *The Next Stage: Implementing Your Strategy*



# When Thinking About External Support Bear in Mind That:

- Having access to deep „first hand“ experience in winning business in the relevant markets and channels is an invaluable advantage when developing a distribution strategy with a high likelihood of successful implementation.
- Execution is important. Although great execution cannot salvage an ill-conceived strategy, success will be elusive unless sound strategy is accompanied by good, cost-effective execution.
- Most strategy consultants leave execution up to you, although it is of crucial importance, or they are ill-equipped to deliver top-quality, tailored „hands on“ support covering every aspect of your execution program. Wouldn't you prefer to work with one team able to meet the full range of your needs?
- Having the right distribution team is essential to success. A well-connected consultant specializing in distribution can accelerate identifying suitable candidates, improve screening and lower the overall cost.

# Are You Looking for Market Entry „Roadmaps & Roadside Assistance“?

- Assessing the sales potential of asset management products with Banks, IFAs, Insurers and Funds-of-Funds (institutional clients) in Germany
- Formulating strategies to fully capture sales potential in Germany, including prioritizing prospects, sales/services team size, deciding whether or not to have an office in Germany, advertising/sales support budgets, incentive design, sales/servicing document design, finding a legal/regulatory advisor
- Advising sales strategy execution including how to approach prospects, road show design and coordination, whether and how to sponsor roundtables or conferences, establishing contacts with consultants, acting as a guide in meetings with fund buyers' gatekeepers
- Developing PR programs to support sales efforts and guide their implementation
- Evaluating the effectiveness of on-going sales/servicing efforts
- Identifying candidates for German sales/marketing teams and
- Limiting client losses in the event of disappointing investment or servicing performance