Advanced Sales - Cerulli Associates
2009 Wholesaler Survey

The last year has been a tremendously difficult time for wholesalers. In many cases advisors and clients were not interested in much besides trying to preserve what was left of their capital. Sales management is scrutinizing—more than ever previously—distribution strategy and the costs associated with it. Distribution strategies—and management's ability to execute them effectively—have been further complicated by a continued shift of financial advisors to independence, industry-changing mergers, and the fact that many distribution partners are on shaky financial ground Additionally, wholesalers have been faced with the difficulties of trying to build consultative relationships with advisors while at the same time having to defend products that suffered huge losses or enacted policy changes in 2008 or 2009.

To get a better understanding of some of the issues facing wholesalers, we review the results of the annual Advanced Sales-Cerulli Associates survey of financial services wholesalers. First, we will look at some of the basic operational aspects of wholesaling, which channels a wholesaler covers, their expense budget and their typical time allocations. Of particular interest is that wholesalers are often serving several of the historically separate channel divisions.

In order to focus their assets on key focus firms, asset managers are increasingly dedicating their wholesalers to their most promising opportunities regardless of channel. For years, most of the efforts at larger asset managers were focused on targeting wirehouse firms. These firms offer the benefits of having strong home-office platforms and advisorforces concentrated in large branch offices. This concentration of advisors enables wholesalers to be at their most effective because they are able to reach many advisors with significant asset bases in a single visit. A confluence of events has caused asset managers to reconsider this strategy, however.

Distribution heads of several asset management firms have expressed to Cerulli sincere worries that it is becoming too expensive to do business with the wirehouses. Despite these reservations, the consensus opinion is that asset managers cannot ignore the large opportunity presented by the wirehouses. The result is that asset managers must now focus much of their attention on fighting for assets at the same B/Ds. Repeatedly, asset managers express that they believe success lies in getting their fair share of business-from the same eight to 10 B/Ds. All of these asset managers intend to make better use of their resources and develop stronger, deeper relationships at the home-office level and in the field with advisors through wholesaling teams.

Our next area of exploration is the relationships of wholesalers to their advisorbase. Wholesalers across channels continue to report that their greatest primary value comes through delivering actionable sales ideas to advisors. Advisors are generally pretty comfortable with their own portfolio management skills but look to wholesalers for assistance in turning their ideas into action by clients.

Choosing the right ideas to introduce to each advisor is one of the fundamental challenges of becoming a consultative partner to an advisor. When presenting ideas it is important to understand the focus of an advisors practice and assuring that the idea is complementing the advisors core capabilities. For instance sales ideas featuring the

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benefits of converting IRA assets to a Roth IRA in 2010 abound, but many advisors just do not feel comfortable focusing on tax issues of a relatively complex nature. A wholesaler who insists on presenting an idea on this topic to one of these advisors would not only be wasting his time, but making it exceedingly clear to the advisor that the wholesaler rally does not understand the advisors practice, possibly sullying future opportunities.

When reflecting on their greatest challenges, wholesalers most frequently cite getting advisors to change product providers (30%) and gaining access to advisors (20%.) While these have been historical problems, 2009 presents a unique opportunity for wholesalers to forge new relationships with advisors as there has been an increase in advisors moving between firms. As noted by one asset management distribution head during CA's research, “so many musical chairs means there is money in motion.” There are no perfect matches between advisor platforms so transition periods offer a perfect opportunity for asset managers to introduce new products to an advisor.

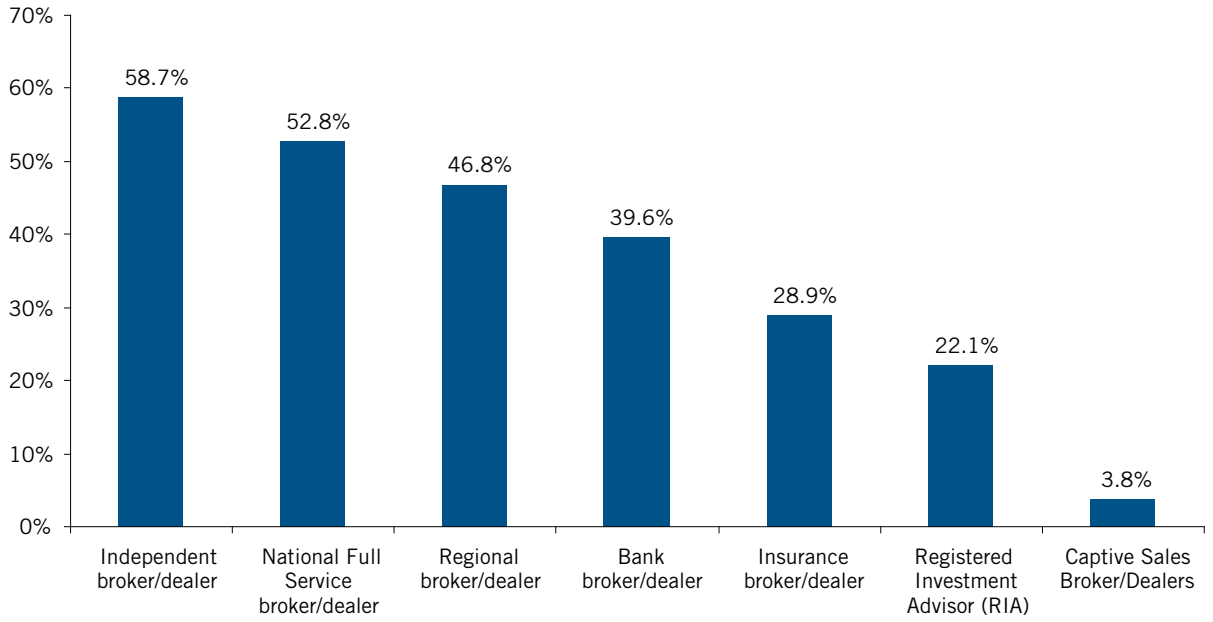
The decision criteria of advisors vary greatly from what fund wholesalers generally assume the criteria to be. While wholesalers place a great deal of importance on their own strengths (59%), only 24% of advisors cite a firm “Having strong, consultative, and knowledgeable wholesalers” as part of their decision criteria. Advisors instead are most likely to report focusing on a firm's consistent style of investing (68%) and an unblemished ethical reputation (58%).

In contrast in the variable annuity market both wholesalers (82%) and advisors (72%) agree on the preeminence of living benefits in product decisions. Here is another growth opportunity for 2009, as many insurers have had to pull back some living benefits riders in 2009. This presents a unique opportunity for annuity providers to claim market share by seizing opportunity while others retreat. While a firm must certainly assure their financial strength, offering the best living benefits during this period offers the opportunity to add significant market share.

When examining their current skill sets with those they feel most important for their position, wholesalers identified their biggest needs in closing sales and interviewing skills. In an effort to become consultative business partners the respondents seem to have not embraced the ABC (Always Be Closing) approach that was seemingly pervasive in prior years. Sales management should be sure to focus on these elements during available training periods to assist wholesalers in turning their efforts into assets.

Our final inquiries addressed the role of a wholesaler's annual business planning process. In general, wholesalers felt the process was useful, as it allowed for two way communication with sales management. However there appears to be much room for improvement within the process as less than a majority of respondents strongly acknowledged its benefits. With many sales managers devoting much of their time to working with underperforming wholesalers, these documents offer a perfect opportunity to develop goals and asses and document progress. ◆

Exhibit 1: Channel Covered by Wholesaler Respondents, 2009

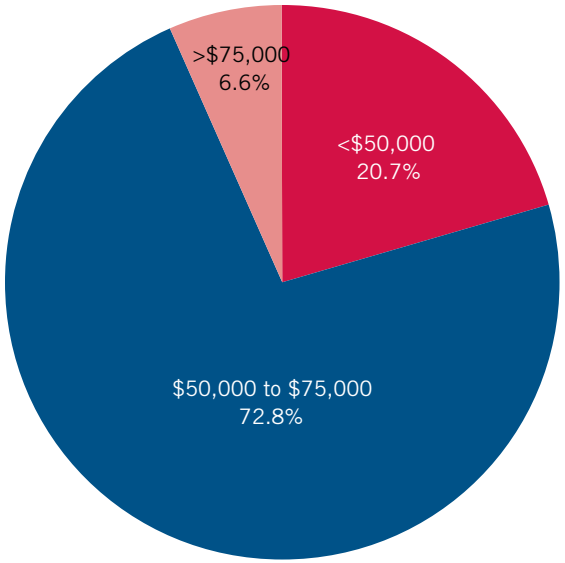


Sources: Cerulli Associates, Advanced Sales Corporation

Though the majority of asset managers take a broadly channelized approach to wholesaling, most wholesalers work with more than one channel, as defined by Cerulli. A territory may have one wholesaler for regionals and wirehouses with another covering the more independent channels in the territory. More remote areas are more likely to see a wholesaler calling on a variety of firms.

Key Implication: In order to focus their assets on key focus firms, asset managers are increasingly dedicating their wholesalers to their most promising opportunities regardless of channel. As asset managers continue to develop partnerships with B/Ds, the asset manager wants to assure the wholesalers priorities are aligned with those of the firm. This has resulted in several firms only compensating wholesalers on sales from a short list of firms, with possible exceptions granted to historically important firms or branches for wholesaler.

Exhibit 2: Annual Expense Account Budget of Wholesalers, 2009

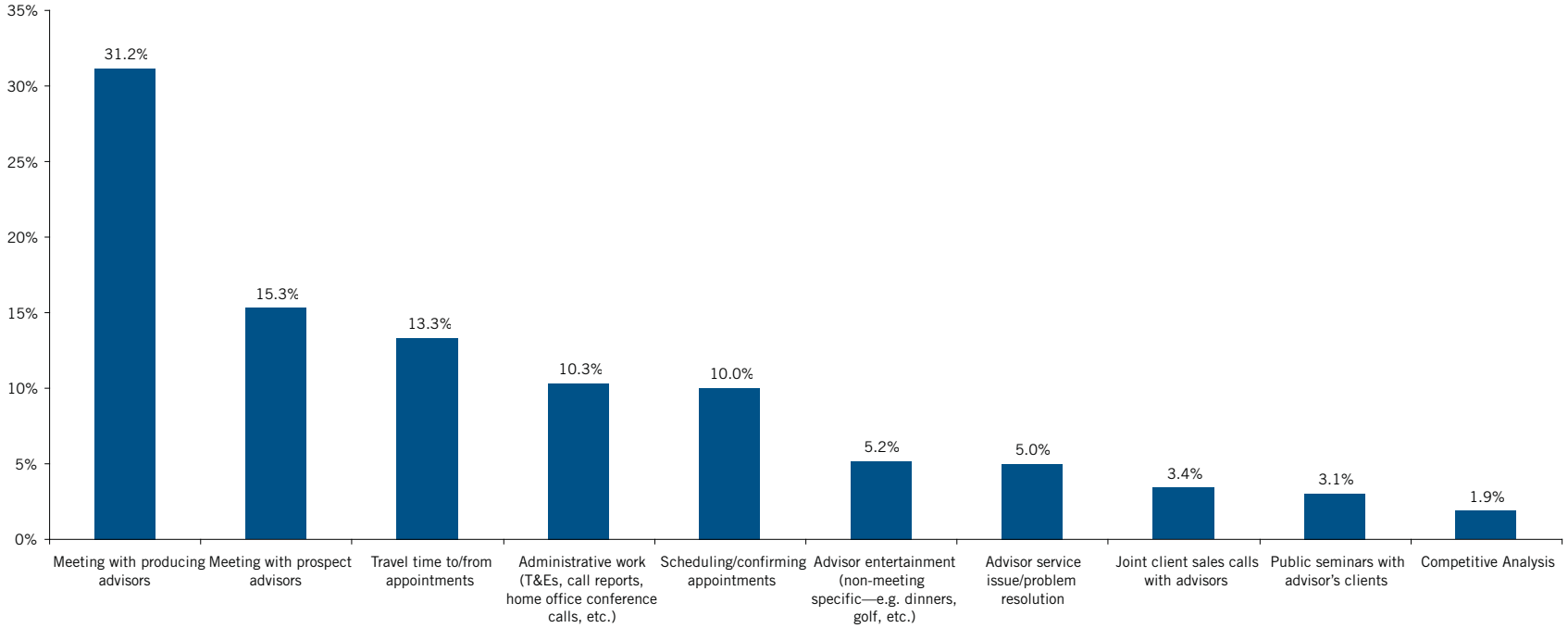


Sources: Cerulli Associates, Advanced Sales Corporation

The largest segment of wholesalers receives an expense budget of between $50,000 and $75,000. Facing difficult markets the average expense budget fell from 2008 to 2009.

Key Implication: Though expenses have increased as a concern for asset managers in 2009, wholesalers still need to remain active in their territories. So though the average expense budget dropped, the majority of wholesalers still have in excess of $50,000 at their disposal.

Exhibit 3: Wholesaler Time Allocation, 2009



Sources: Cerulli Associates, Advanced Sales Corporation

Meeting with producers and prospects are the leading uses of a wholesaler's time. Data has shown strong correlations between a wholesaler's effectiveness and time devoted to these activities.

Key Implication: Despite increasing sophistication of tools and advisors, wholesaling remains an exercise in personal selling. With what asset managers are paying wholesalers for their selling skills, they need to focus on getting wholesalers more time in front of advisors instead of adding additional non-advisor facing activities.

Exhibit 4: What Wholesalers Believe to be Their Primary Value to Advisors, 1Q 2009

Value	Mutual Funds	Variable Annuities	All Wholesalers
Actionable sales ideas	36.2%	45.9%	36.9%
Strong knowledge of my own product line	20.5%	21.3%	20.6%
Practice management ideas	15.7%	13.1%	15.5%
Sharing of advisor best practices	12.9%	12.3%	12.0%
Advanced investment knowledge	10.0%	2.5%	9.9%
Competitor product knowledge	1.0%	1.6%	1.3%

Analyst Note: Wholesalers who sell both mutual funds and variable annuities were counted in both product lines.

Sources: Cerulli Associates, Advanced Sales Corporation

Wholesalers feel their greatest primary value comes through delivering actionable sales ideas, especially among VA wholesalers. The unique benefits of various policies allow wholesalers to craft a number of scenarios that could benefit an advisor's clients. Advanced investment expertise is much more important among mutual fund wholesalers. Lacking the differences in optional policy enhancements, fund wholesalers are more apt to focus on how and why their funds perform as they do.

Key Implication: Delivering actionable sales ideas tests a wholesalers range. First the wholesaler needs to get access to an advisor to develop an understanding of the practice, and then work through discovery to determine what solutions may appeal to the advisor. A wholesaler's first attempt to introduce a new idea to an advisor is a crucial point in their relationship.

Exhibit 5: Wholesalers' Greatest Challenges, by Product Line, 1Q 2009

Challenge	Mutual Funds	Variable Annuities	All Wholesalers
Advisors unwilling to change existing product providers	30.4%	36.7%	30.4%
Gaining access to advisors	18.8%	21.7%	19.6%
Increased influence of broker/dealer in asset management selection and packaging	14.0%	10.0%	12.6%
Segmenting advisors to spend time profitably	10.1%	10.8%	10.4%
Other	9.7%	6.7%	9.6%
Difficult to distinguish self because of number of products available to advisors	6.8%	8.3%	7.4%
Support from home office	4.8%	2.5%	4.8%
Working with advisors in a more consultative fashion	4.3%	3.3%	4.3%
Lack of training	1.0%	0.0%	0.9%

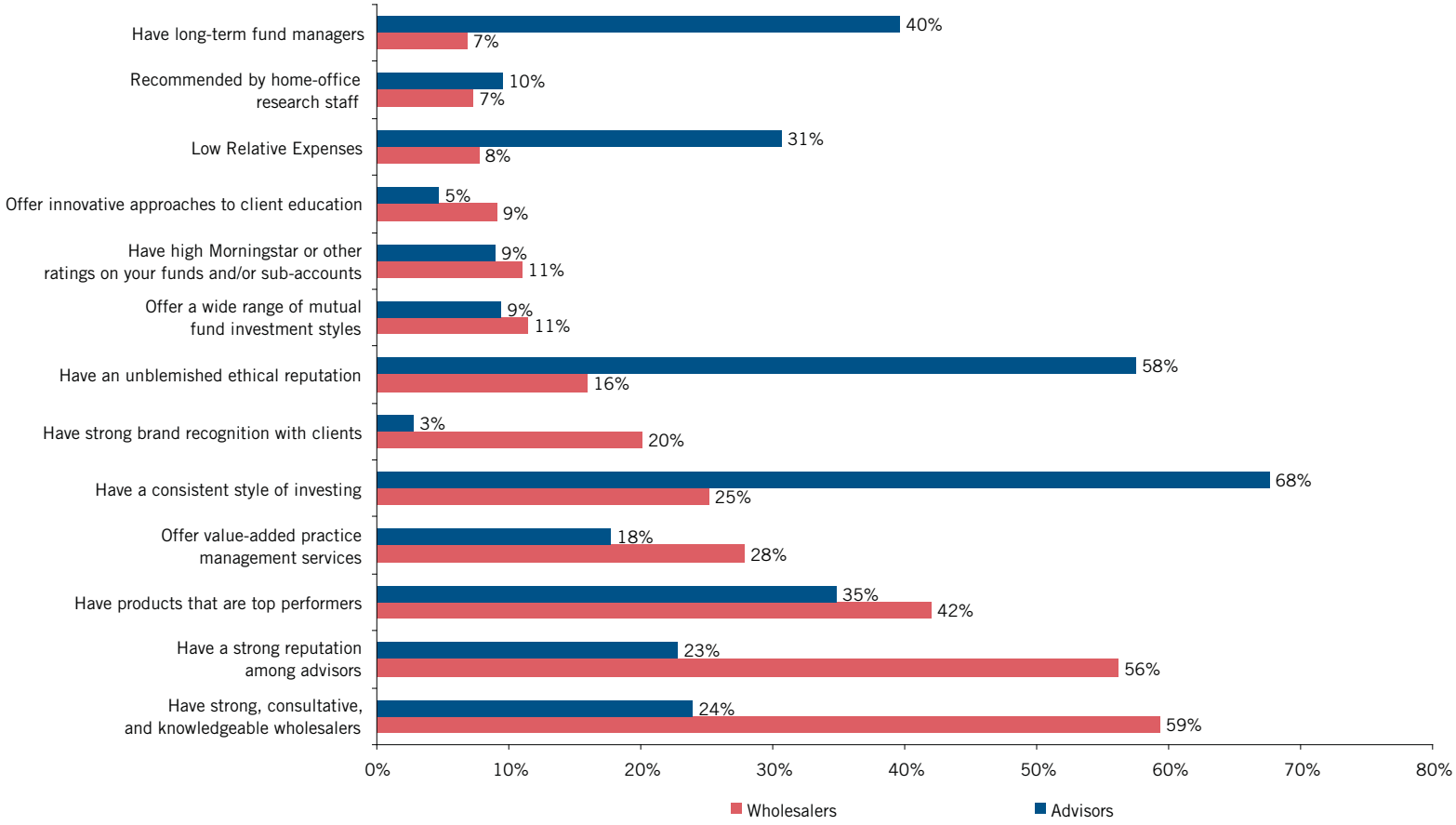
Analyst Note: Wholesalers who sell both mutual funds and variable annuities were counted in both product lines.

Sources: Cerulli Associates, Advanced Sales Corporation

Across product lines, getting advisors to change product selection is the greatest challenge for wholesalers. Once advisors become comfortable with a product, they are less likely to consider alternatives unless there is an outright failure by the incumbent. Gaining access to advisors has risen in level of difficulty in recent years. Not being able to see an advisor creates obvious difficulty in creating a relationship.

Key Implication: Understanding an advisors book is crucial when trying to introduce new products, but advisors are showing increasing reluctance to meet with wholesalers. With technology platforms and home-office research, advisors feel they already have the support many wholesalers are looking to offer.

Exhibit 6: Reasons Wholesalers Believe Advisors Choose to Use Asset Manager, 1Q 2009

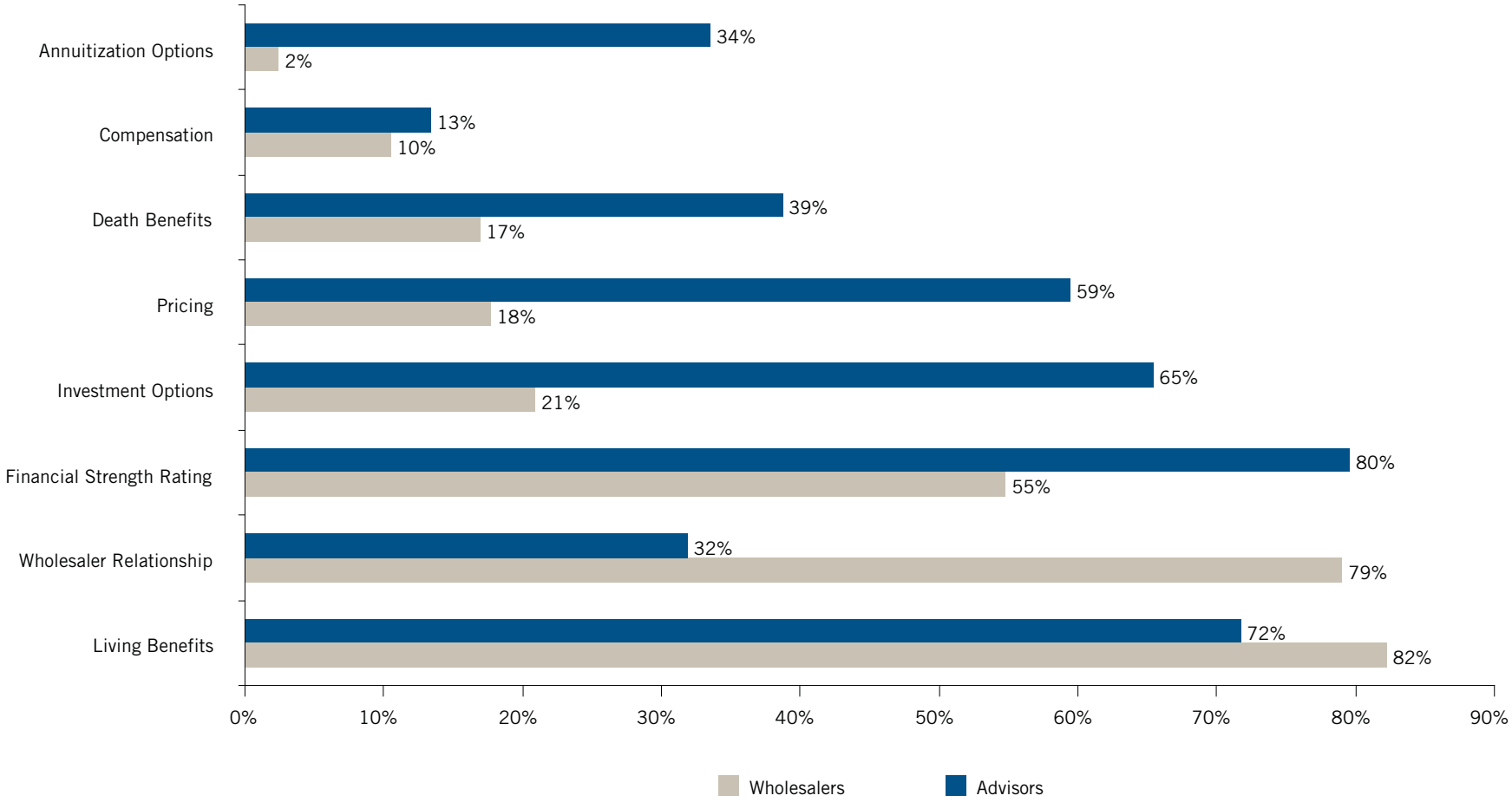


Sources: Cerulli Associates, Advanced Sales Corporation

Unsurprisingly wholesalers consider themselves crucial to advisor's decision making. They do however also acknowledge the importance of their firm's reputation and performance. Advisors actually report an asset manager's consistency and ethical reputation to be the leading determinants. Advisors are most interested in being confident in getting what they expect from an asset manager.

Key Implication: Advisors have been focusing more on risk metrics and consistency when designing investor portfolios. However, we must remember that an advisor's perception of a firm is often seen through the lens of the advisors wholesaler relationship. So while advisors may not state that the strength of a firm's wholesalers is relatively unimportant, a string wholesaler is often the only way an advisor will learn about the other factors advisors consider important.

Exhibit 7: Wholesalers vs. Advisors: Reasons Advisors Choose Variable Annuity Providers 1Q 2009

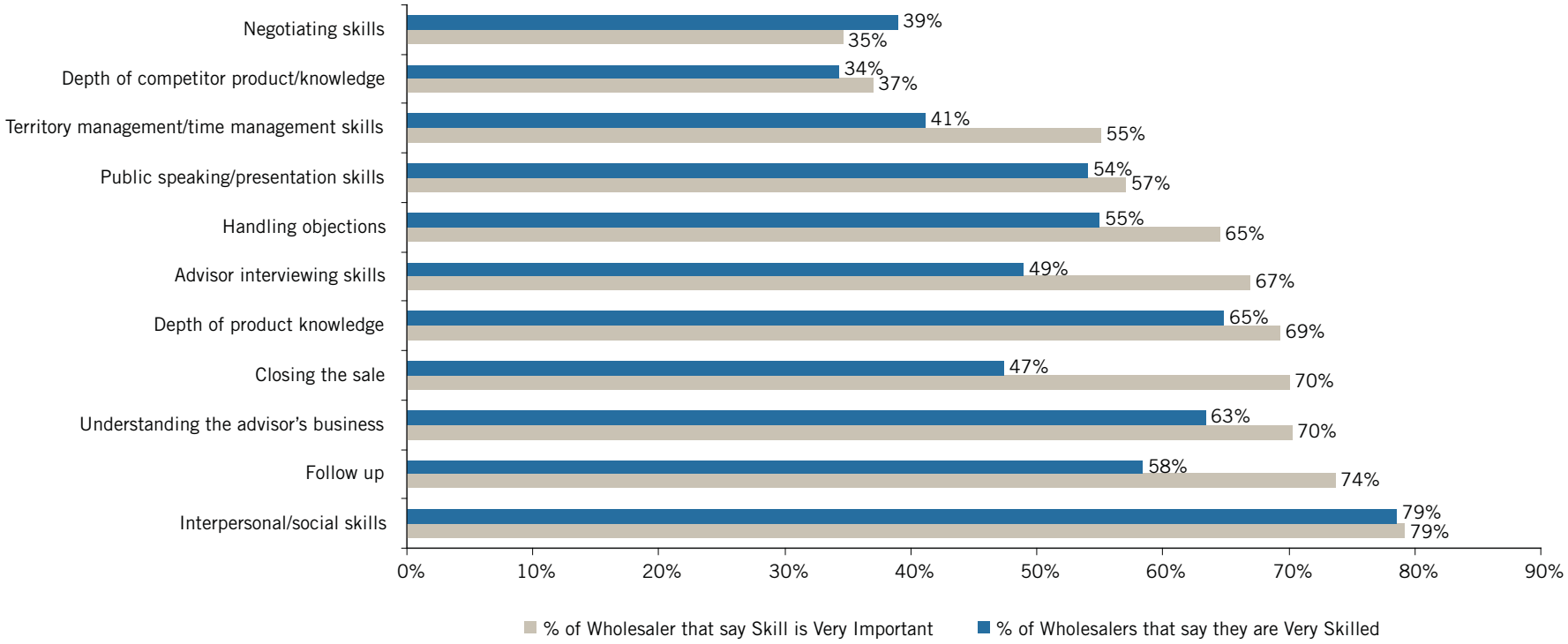


Sources: Cerulli Associates, Advanced Sales Corporation

Wholesalers and advisors agree that living benefits drive annuity selection. The focus on living benefits created an arms race between providers in rising markets, but falling markets have caused many providers to pull back some of their offerings. Advisors place nearly as much importance on a firm's financial strength. During recent market turmoil the threat of an insurer's failure became a much more realistic issue.

Key Implication: With many insurers pulling back living benefits, 2009 presents a unique opportunity for annuity providers to claim market share by seizing opportunity while others retreat. While a firm must certainly assure their financial strength, offering the best living benefits during this period offers the opportunity to add significant market share.

Exhibit 8: Wholesalers' Ratings of Most Important Skills versus Their Current Skills, 1Q 2009

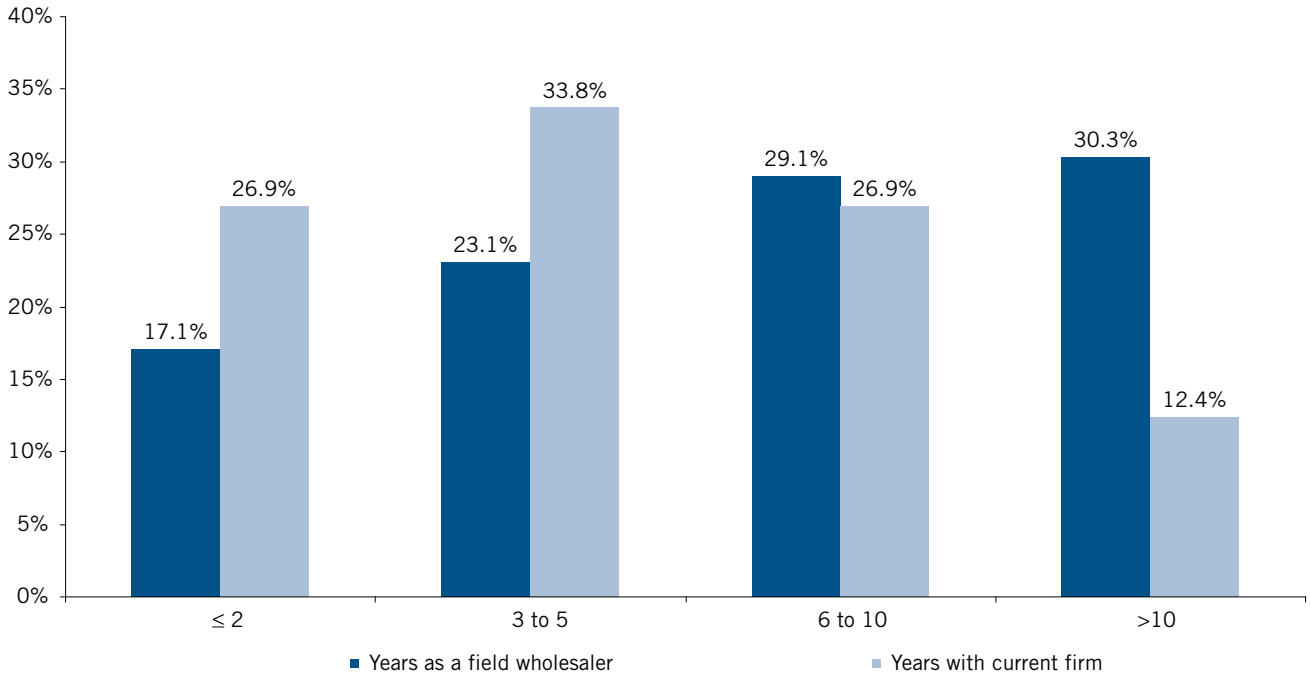


Sources: Cerulli Associates, Advanced Sales Corporation

Wholesalers rank interpersonal/social skills as their most important traits and ranks themselves highly in it. The largest noted disparities between a wholesalers needed skills versus their capabilities came in "Closing the Sale," "Advisor Interviewing Skills" and "Follow Up."

Key Implication: Wholesalers do not feel uncomfortable creating relationships with advisors, but have trouble moving from relationship to revenue. With so much effort focused on creating consultative relationships there is some reluctance to asking for the business. Wholesalers and sales management need to find a balance between consultation and salesmanship.

Exhibit 9: Years of Experience as Field Wholesalers vs. Tenure with Current Firm, 1Q 2009

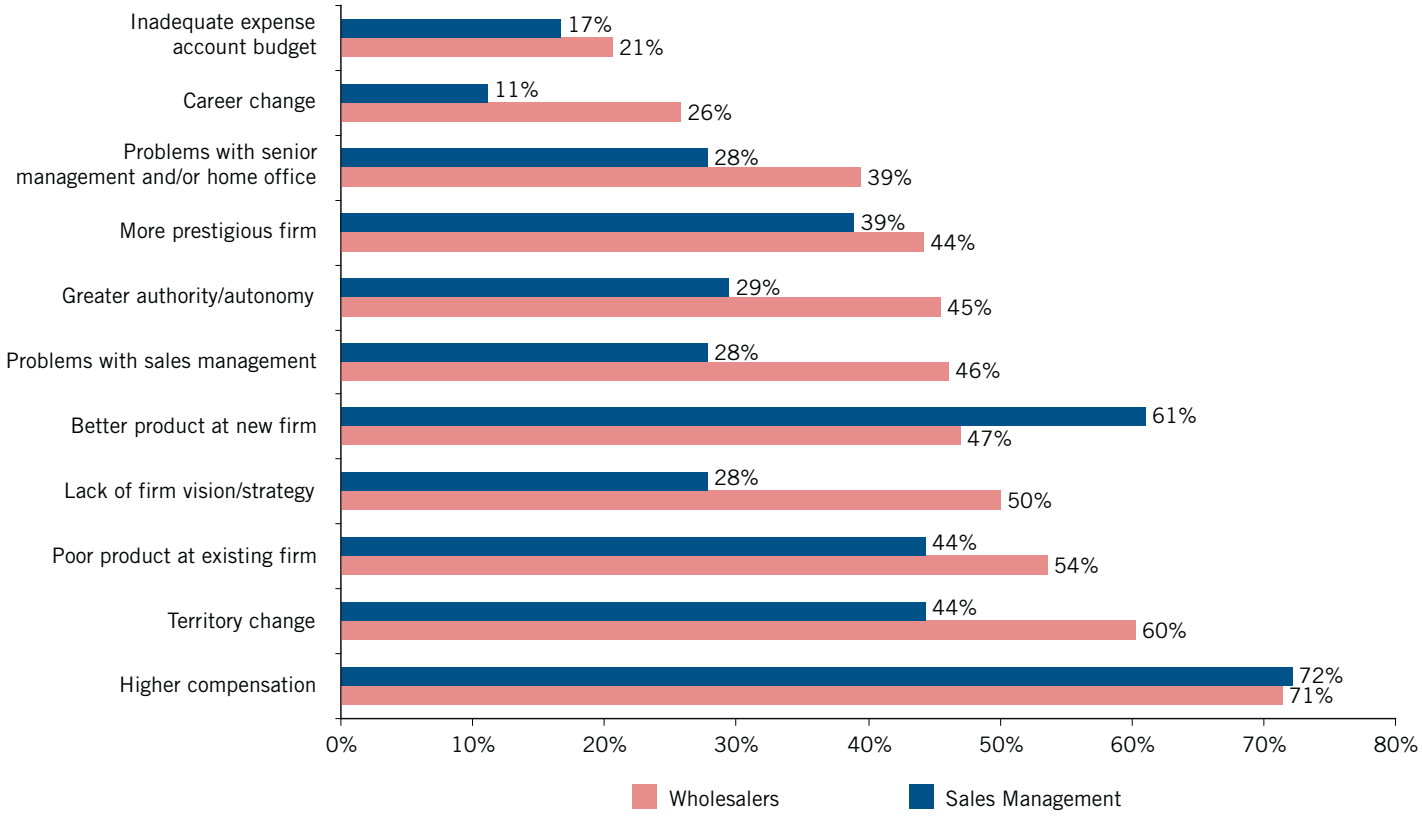


Sources: Cerulli Associates, Advanced Sales Corporation

Promoting internal talent still serves as an important source of new wholesalers. Wholesalers with less than five years experience average longer tenure at their firm than as wholesalers. 60% of respondents have been field wholesalers for at least 6 years.

Key Implication: Creating consultative relationships without actual field experience is a continuous challenge for new wholesalers. With several firms trimming their roles of experienced wholesalers, 2009 serves as an opportunity for asset managers to add additional talent in a buyers market.

Exhibit 10: Sales Management vs. Salesforce Comparison: Reasons Why a Wholesaler Would Leave a Firm, 1Q 2009

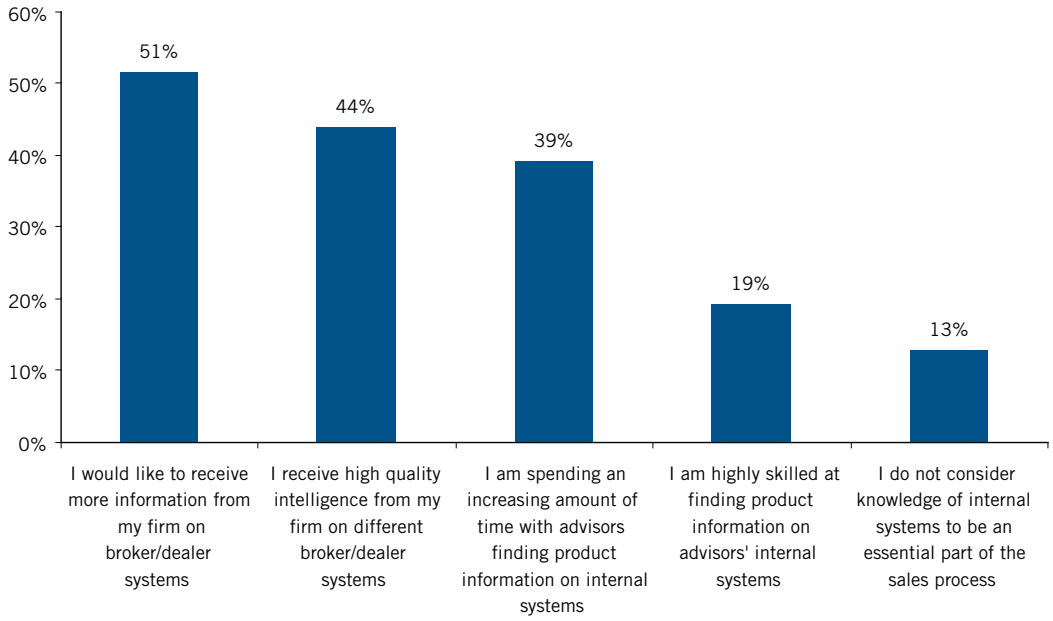


Sources: Cerulli Associates, Advanced Sales Corporation

Sales managers and wholesalers agree that compensation is the leading reason for wholesalers to leave a firm. Territory and product concerns would also be considered by a majority of wholesalers. Wholesalers place more emphasis on problems with sales management and lack of firm vision. Expense budgets have rarely been an issue.

Key Implication: The relatively high rankings of many factors, by wholesalers, reinforce the struggles faced by sales management to retain quality wholesalers. While the markets of 2009 may limit opportunities, wholesalers can bet set into search mode by a number of factors, many of which end up ultimately tied to compensation. Creating stronger bonds with wholesaling teams during times of adversity, and putting them in a position to help craft the firm's distribution strategy could help long-term retention.

Exhibit 11: Wholesalers' Interest in Understanding B/D Technolgy Systems, 1Q 2009



Sources: Cerulli Associates, Advanced Sales Corporation

Only 13% of wholesalers have no interest in learning more about the technology platforms of their advisors. 19% of wholesalers already consider themselves highly skilled on the nuances of advisor platforms.

Key Implication: Additional training on advisor platforms can be a powerful source of value for a wholesaler. As asset managers are often focusing a limited set of key B/D distribution partners, it makes sense to ask these B/Ds to provide additional insight into their technology platforms. With B/Ds training staffs being stretched thin, there are opportunities to ask the B/Ds to present at the asset managers national or regional sales meetings thereby creating an opportunity for the wholesalers to spread a few tips throughout the B/Ds advisor network.

Exhibit 12: Effectiveness of and Time Spent on Wholesalers' Annual Business Planning Process

Effectiveness of Wholesalers' Annual Business Planning Process	
Very effective in helping me achieve my goals	14.1%
Effective in helping me achieve my goals	51.7%
Minimally effective in helping me achieve my goals	30.8%
Not effective. Does not help me achieve my goals	3.4%

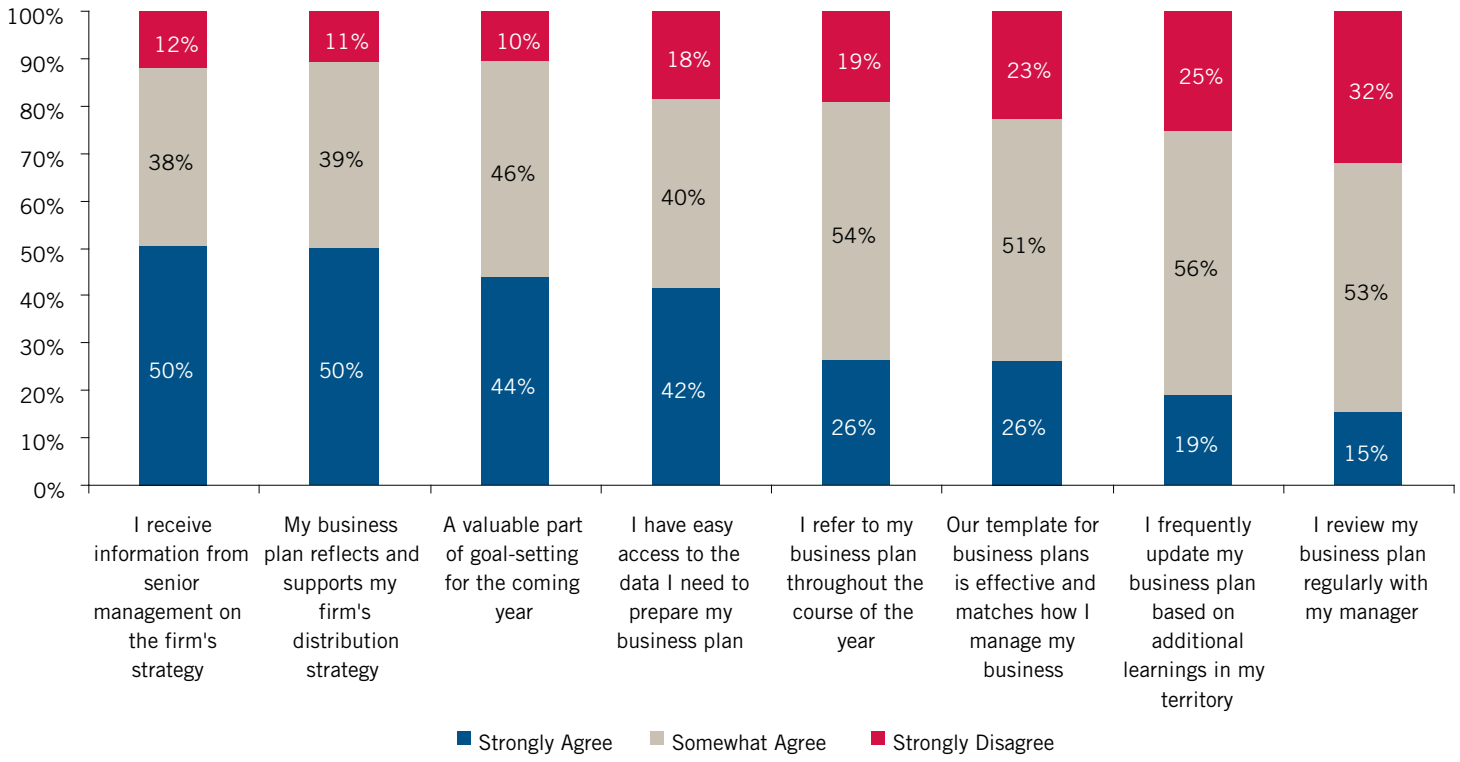
Time Spent on Wholesalers' Annual Business Planning Process	
More than four hours	53.6%
Two to four hours	37.8%
One to two hours	5.6%
One hour or less	3.0%

Sources: Cerulli Associates, Advanced Sales Corporation

Wholesalers generally feel favorably about their annual business planning process, 66% indicate they feel it is effective in helping them achieve their goals. The majority (54%) of wholesalers devote at least four hours to developing their plans.

Key Implications: Completing a robust annual business plan takes time, but does actually yield results for most wholesalers. A scattershot approach will not work as wholesalers look to develop consultative relationships with advisors.

Exhibit 13: Assessmentg of wholesaler annual business planning process, 1Q 2009



Sources: Cerulli Associates, Advanced Sales Corporation

Business planning presents an opportunity for the wholesaler and sales management to confirm that their strategy and efforts are aligned. As their positions are inherently field based wholesalers usually miss out on the give and take that can shape strategy at the firm level. Business planning sessions assure that wholesalers will discuss these issues at last annually.

Key Implication: Relatively few wholesalers indicated they actively referred to or updated their business plans on a regular basis. In order to increase their probability of reaching corporate goals wholesalers and managers should make a greater effort to check in on their progress through the year, and alter plans as necessary.