

# Excess Returns

Monthly insights for investment marketing and sales professionals



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In getting to know an investment firm, we always ask if there is any market research that would be useful in our work. Almost invariably and paradoxically, the answer in some form is “no.” Paradoxically because most investment managers claim investment research as a primary competitive advantage. But when it comes to research about their own companies, they haven’t done any. Or it is dated. Or, for various reasons, even though they have spent a lot of money on it, it is irrelevant. This issue offers some advice for professionals who are serious about using market research to build a better business.

With best wishes,

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Founder, Principal and Director of Research

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*Alpha Partners is an investment marketing firm specializing in research and presentation strategy. Our goal is to create alpha (excess returns) by helping investment firms win, keep and diversify assets under management.*

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## Escape from “The Land of Anecdote”

Every once in a while, I have an experience that is so bizarre, so completely out of context, that I don’t even try to make sense of it. I know that it must be filed away for future reference when time or experience or some random flash of insight will make it all come clear. Here is one of those:

A few years ago I was in the middle of an interview with a portfolio manager and a product specialist. The goal of the meeting was to develop an understanding of this team’s investment strategy in order to assist with various marketing initiatives.

During the first few minutes, I asked a question that I routinely ask, “Have you done any client research that might perhaps be helpful to us — interviews with clients to understand why they initially chose your team over competitors, for example?” “No,” the portfolio manager said. “It would be impossible to conduct such research with any meaningful level of statistical significance.” Wondering why on earth not, I politely ventured the following: **“We don’t necessarily need client research to be statistically significant. It would be helpful to us merely to understand what some of your major clients see in you that they do not see in your competitors.”**

This person's response was so astonishing that I still wonder if this really happened. "Oh well," he said, with sardonic emphasis, "I guess *you* know far more than *I* do about that. So you don't need me here today!" and proceeded to walk out. Storm out? It's hard to find the right verb, but anyway it was clear: *This person was mad at me.* After meeting him for the first time and after an exchange that consisted of only a few sentences, my simple statement about market research caused him to leave in a snit a few minutes into an interview scheduled for one hour. Later that day, the head of marketing for this same firm, when asked by a colleague about the "XYZ Research Company" report, said, with genuine bitterness, "That *crap!* It is completely useless to us."

### Strong Emotions and Closely Held Opinions

Crap? Useless? People walking out of meetings? It has taken me a long time to make sense of all this, but I think I finally have. The moral of the story is: **Investment company professionals have strong, closely held, often strange opinions about the role of market research. They don't necessarily know what they want, but they do know they want more than they are getting.**

They want genuine insights about how to run a better business and have better relationships with their clients. They want interpretation and analysis, not just facts. They want an objective basis for important decisions that often hinge on subjective factors; or, as one of our clients put it recently, "we want to stop living in the land of anecdote." And perhaps most of all, **they want ideas about implementation — recommendations for how to act on the research as opposed to a mere litany of findings.**

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In the early phases of setting up a research study, our clients ask us many questions about the best methodology and approach:

**Do we need market research?** Maybe not. We counsel clients to avoid conducting a research study when the answers to the questions may well reside in good old-fashioned common sense.

**What kind of research might be best for us now?** The answer depends on the size of your firm, what you want to know and why, your time frame and the size/composition of your target audience. You might be best served by a client survey every two years, systematic win/loss research, a periodic consultant evaluation, a lost client survey or some combination. The best way to get started is to survey others within your firm about what they want from research and then create a project brief or RFP.

**Should the research be qualitative or quantitative or both?** Quantity is vital in certain situations but always must be combined with quality. The reason why some view expensive research studies as "crap" is that there is insufficient qualitative data to understand let alone act on the findings. We call this "statistical *insignificance.*" We use the quantitative work (an online survey with mainly quantitative questions targeting a large audience) to gain credibility in a world where numbers rule. But where we get our real answers is in the qualitative work (in-depth telephone interviews targeting a smaller group).

**Will people want to participate?** Clients and other key constituents such as consultants always want to participate. We have been conducting research interviews for institutional asset managers for more than 20 years and I cannot recall a situation where a client or consultant declined an invitation. For the reasons described in *How Can We Serve You Better?*, clients in particular like to be included. (Of course, one must be judicious in not asking the same clients to participate in multiple research initiatives within a short period of time.)

**How do we thank participants for their time?** The best thank-you is a report (or a letter) summarizing the research findings. Consultants, clients and prospective clients always like to receive this information because they want to know what others think who walk in their same shoes. Sometimes these reports can be an excellent way to correct market misperceptions. If one of your clients believes something about your firm that is not true, it can be corrected in a factual, non-defensive manner with a simple Editor's Note. But caveat emptor: the findings should not be watered down to the point where they say nothing. Nothing has a distinctive look, feel and smell no matter how many nice words you wrap around it. A research summary that fails to address true findings may do more harm than good.

**Should we conduct the research ourselves or hire a third party?** In most cases, the answer is "hire a third party." As the head of a firm focused on market research, do I have a vested interest in this response? Yes! But I also speak from hard-won experience. I used to conduct research interviews with our company's clients. When asking questions about my own firm, I felt I could not press for more information about positive comments (fishing for compliments) or probe for the realities behind negative comments (too defensive). So now a third party conducts our client interviews and win-loss interviews and, as a result, we get better information — information that over time has changed for the better the way we do things.

**What should we look for in a third-party researcher?** Experience. You need an interview team consisting of senior researchers who understand the asset management business. Remember, too, even if only for an hour, these people are representing your company.

**How do asset managers leverage their market research to gain strategic value?** *By acting on the findings.* By escaping from the land of anecdote and going bravely forth into the real world. By making decisions based on objective knowledge about why your firm is or is not hired, why your clients are or are not happy, what perceptions and misperceptions characterize the market's view of your organization and how you can improve all aspects of your business.

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I still don't really know why that portfolio manager got so mad at me (maybe he was simply having personal issues that day). But I do know that **market research generates strong emotions, either because it can be so powerful or because, in the wrong hands, it is not powerful enough.**



## How Can We Serve You Better?

Have you ever noticed that the best restaurants and hotels usually provide a customer survey to determine how they can improve your experience — and the worst, well, don't? Our clients sometimes ask us how market research creates value. In addition to capturing candid insights from influential market participants, a well-managed, thoughtful research initiative always creates value by sending this vital message: "Your business is important to us, and we want to learn how we can serve you better."



*This waiter works in a restaurant that does not survey its patrons on how service can be improved.*



*This waiter works in a restaurant that surveys its patrons regularly.*

## Client Research Views: A Survey

Alpha Partners would like to find out more about your firm's views on different kinds of market research. To participate anonymously in a survey focused on client research, [click here](#).