
How wholesalers should adapt to disruption: DST

By Editorial Staff Thu, Sep 28, 2017

A new report from DST, "Prevailing in a Changing Distribution Landscape," describes how investment product wholesalers can respond to changes in the advisory and brokerage world.

At the Insured Retirement Institute annual conference in Florida this week, one of the break-out sessions was dedicated to the future of the annuity wholesaling. Called "Evolution or Extinction," it focused on disruptions in the advisor world that, in turn, are disrupting the wholesaling world.

A new series of reports from DST Research, Analytics and Consulting, coincidentally looks at investment product distribution, which faces some of the same challenges. The series, "Prevailing in a Changing Distribution Landscape," includes material that:

- Examines the imbalance of asset managers' current business models and the industry trends challenging them
- Provides a framework to assess the firms' preparedness
- Outlines steps to modernize sales team structures and compensation programs

"Increased regulatory scrutiny and fee compression have forced the industry to consolidate to achieve better economics," said Steven Miyao, head of DST Research, Analytics and Consulting, in a release. "The largest distributors are overhauling their platforms to put potentially more than \$3 trillion of assets in motion."

Because advisors make investment decisions on only 36% of all broker-dealer AUM (research analysts and algorithms govern the other 64%), distribution teams should:

- Work with their firms' business intelligence teams to identify and avoid advisors who outsource their investment decisions.
- Use segmentation to identify advisors who can be influenced, and whose needs for products and services align with the asset manager's capabilities and goals.

Team and territory structures

As advisor business models evolve (45% of advisors plan to conduct more fee-based business in 2017), advisors are becoming harder to reach (in-person meetings are down 16% and call volume is down 27% since 2011). In terms of sophistication and skills, it's more important than ever to match the right wholesaler with the right advisor.

Compensation models

Compensation models for distributors must become more aligned with the asset managers' business strategies. Variable commissions based on gross sales, which represented 35% to 49% of total

compensation for external salespeople in 2016, don't necessarily drive the metrics, such as holding period, that determine profitability.

Relationship management

As much as \$3.3 trillion in actively managed assets are in funds with Morningstar Ratings of 1, 2, or 3 stars. These underperformers are most at risk for being eliminated from product shelves. This will demand the services of a dedicated relationship manager who can focus on retention activities.

For more information on DST's "Prevailing in a Changing Distribution Landscape" research, contact Myra Bartalos, head of Marketing for DST Research, Analytics and Consulting, at [\[email protected\]](#)