Mutual Funds : Distribution is the Key

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Mutual fund industry, which has the potential of becoming the largest repository of the nation's wealth, has had its ups and downs. In other words, the growth of the industry has been erratic. Issues like mismatch between reality and expectations, wrong positioning, and lack of awareness about the concept of mutual funds keep hampering the growth of the industry time and again.

While no one can deny that mutual funds are the most ideal investment vehicle for investors, the current crisis is another acid test for the industry. Just when the small investors were beginning to have a re-look at the equity schemes of mutual funds, the indices spiraled downward, taking with it the dreams of aspiring millionaires. In an era of triple digit annual returns, investor's expectations generally become distorted. In order to capture the extraordinary returns, they abandoned diversification and elected to farm on one sector-IT at the expense of the rest of the market. No doubt, a plethora of IT funds fuelled their expectations.

As mutual fund industry proliferated, every so-called expert started offering mutual fund advice. In addition, investors became obsessed over the statistics of the day. A better strategy would be to take a hard look at their portfolio and ensure they have a mix of funds that produce gains from diverse sectors, including stocks and bonds. Distributors, who are a link between investors and mutual funds, have an important role to play in keeping the investors away from this frenzy and make them long-term investors. In addition, a long-term approach by the mutual funds will ensure survival and prosperity.

Therefore, one of the core issues facing the mutual fund industry is to identify and develop an efficient distribution system. The objective of distribution and delivery should be to make products and services accessible to clients and targeted prospects in cost effective ways that satisfy their important criteria like convenience of purchase, personal attention and reliability.

Mutual funds offer a variety of schemes that needs detail understanding and clarification. The rapid development of press as well as electronic media has increased investors' awareness. Today investors are demanding more and more. They expect the seller to meet them periodically and provide them satisfactory after sales services. Under these circumstances, a distributor who takes care of all those factors which have greater influence over the decision making process, has the best chance to achieve success.

In the present competitive environment, effective selling is not possible without ascertaining the specific need of investors. A need based selling by keeping the investor as the focal point is crucial. Moreover, the distributors will require a lot of patience and enthusiasm on their part to make retail investors aware about mutual funds. It is definitely a hard job wherein motivation-self imposed or external, plays an important role in inspiring the distributors apart from their knowledge and sales techniques. It is a fact that only a motivated distributor can take his profession in a missionary zeal and can ultimately succeed in achieving excellence.

Most of the distributors do not provide any service or value addition in terms of advice to the investors. Unfortunately, most of the selling is incentive driven and no attempt is made to build relationship. There is, however, a degree of scope for the experienced seller to make a beginning and enhance the package by adding professional advice to reflect the ever changing and broadening needs of particular clients and client groups. This would increase the added value of the product, but requires imagination, resourcefulness and hard work.

On its part, the mutual fund industry has started looking for new avenues for distribution. Gone are the days an IPO like launch, when mutual funds printed the sales material and the distributors did the rest. With most of the traditional channels of distribution becoming less effective, the focus has shifted to other channels such as direct selling and selling through professionals and opinion makers. In other words, rather than relying on incentive driven selling, these channels encourage investors to make informed decisions.

Despite the changing methods by which mutual fund products are being distributed, the industry still has to cater to two distinct kinds of investors; those who want to have their hand held i.e. small investors, and those who are capable of taking independent decisions. Volatility and the potential to make losses are the unpleasant realities of the marketplace, which deter the small investor. It is here a good mutual fund provides service by spreading risk and providing professional expertise. It is this service that the mutual fund industry should try to highlight, as it continues its efforts to bring more and more small investors, who are the lifeline of the industry, back into its fold.

Distributors have always been an integral part of the mutual fund industry. While they provide a link between investors and mutual funds, they have often been blamed for luring investors for making an investment by offering attractive incentives rather than on the merit of the investment option. Arguably, all those investors who invested in equity schemes during the honeymoon years did so, in the absence of any sound advice from the distributors selling mutual funds.

No doubt, investors need help in allocating their investible funds among various asset classes. However, it is not fair to put the entire blame on the distributors for these debacles. It is important for investors to understand that advisors can at best ask the right questions. There is no escaping the fact that the investor himself has an important role to play.

At the same time it can not be denied that there were agents or sub-brokers, who did not have adequate knowledge about mutual funds and their products. Mutual fund industry needs to address the critical issue of whether it requires new distribution channels or does the solution lie in training the existing channels. Or is a two pronged approach, addressing both the issues, the answer?

In a country as big as India, geographically dispersed, culturally diversified and densely populated, there is a need to have a network of distributors sufficiently large and varied to tap investments from all corners and segments. Currently distribution channels are available in a large number; however, their quality is questionable. The industry needs to pull up its socks and make a beginning in sharpening the skills of intermediaries as also to find new methods of harnessing people's savings. To be successful in this mission, the industry will have to ensure that only those intermediaries who have conviction about mutual funds being the best investment vehicle for investors are encouraged. Registration of intermediaries will help in ensuring their seriousness and quality.

Distributors will have to make efforts to understand products and their suitability to varied investor profiles. They would need to realise that selling mutual funds requires competence in identifying and matching clients' needs; clients must ultimately achieve their investment goals. In other words, the nature of selling mutual funds is like balancing the "business see-saw" by cost effectively managing clients' resources so that they can match and satisfy their differing financial requirements and expectations.

It is important for the distributors to understand about the value and advice they bring to the process, not just on the initial sale but through out the investment's time horizon. They should realise that as client's goals and needs change, they should help them to make changes in his portfolio as well. It is a part of distributors' business to educate investors so that they can add value that goes beyond the brokerage. They should also realise that a financial advisor can add significant value to the portfolio selection and review process including tax consequences of buying and selling mutual fund units as also develop strategies to minimise the tax.

It is important to apply financial planning techniques based on investor's needs and risk tolerance. Comfort level is, of course, very important too. We all know that equities give the best return over the long term, but that does not mean any thing if the investor is going to have sleepless nights worrying about the fall in the index. Determining a client's comfort zone is another way of evaluating their desire for risk.

The cornerstone of this approach would be client segmentation. The target group may comprise of people with varying profiles- age, occupation, income and life styles. In recognition of these differences lie the key to the client grouping or segmentation, assessment of their needs and ambitions as also maintaining long-term client satisfaction. Besides, distributors need to work on referral circles. Referrals can work as introduction channels to new prospects. This will save valuable prospecting time and also ease their distributive strains. In addition, referrals will allow distributors to have a closer tie with their clients, which can be of significant value in building relationship. Of course, to achieve effective referrals, distributors will have to develop satisfied clients.

Moreover, a distributor should recognize the needs and ambitions of the investors and then provide products and services that offer a great degree of sustained client satisfaction then he would obtain from invest directly in various financial products. Investment advice, service and after sales support are integral parts of this 'package'. Repeated and sustained client satisfaction develops client loyalty; it is easier and cheaper to sell to existing clients than to have to find new clients all the time.

Regarding developments of new channels of distribution, the industry has a lot to learn from countries such as the US, UK, Germany and Italy. In the US, the retail fund management industry has been able to mobilise assets worth $5 trillion. In Europe, banks along with insurers have emerged as major distributors for mutual fund products. For example, in France and the Netherlands, more than 80 per cent of mutual funds are sold through these sources.

In India, some of the foreign banks realising their edge over other distributors on account of their clients, have got into distribution of mutual fund products. On the other hand, most Indian banks fearing cannibalisation of their deposit base have extensive relationships with retail as well as corporatestayed away from the arena. However, realising that banks may offer stiff competition in near future, some of the big distributors have started providing investors with a tailor-made asset allocation service, bundled up with other services such as tax advice and a wide range of research services. In other words, they have started providing a mutual fund 'supermarket' that allows investors to select a variety of schemes managed by various mutual funds. This will help mutual funds that can offer a family of funds backed by a proven track record since these will have the best chance of competing for the 'shelf space'.

There is also a need to develop channels like payroll subscription and independent financial advisors, which have been very successful in the west. These will give mutual funds an access to regular funds. Moreover, it is necessary to develop retail "shops" managed by quality advisors, where individuals can walk in and purchase funds.

Internet has sparked an investment revolution and is an enormous investment research resource. The information and tools that used to be in the hands of professionals are now in everyone's hands. Investors know more about investing than ever before. Information is literally at investor's fingertips, and they are using it to devise their investment strategies and research product. An investor with Internet access can scroll through the latest reports, chat with mutual fund mangers and share opinions. The web gives prospective investors the ability to download offer documents, factsheets and much more.

Never in the history of the Indian mutual fund industry, has the information flowed so freely as it does today over the Internet. The distributors, who are not technology savvy, will have to act quickly and empower themselves with the growing power of Internet and get over the fear of technology. This will enable them to separate themselves from the old fashioned distributors that crowd the marketplace. They should understand that technology advances would increase their mobility.

Information technology (IT) has an important role to play in marketing of mutual fund products. In fact, IT enables much more sophisticated data based marketing, leading to better relationship building. Everyone knows that the name of the game is relationship building. Net-based marketing has the potential to be highly relevant, personalised and productive. IT can be very effective in cross selling.

It is quite obvious that the mutual fund industry needs to adopt two fold agenda: train the existing channels and develop new channels to attain wider reach as also to sell specialty products, once proper segmentation of the mutual fund market is achieved. Simultaneously, the industry needs to focus on making the products and services accessible to investors and targeted prospects in cost-effective ways.