THE EVOLVING ADVISOR RELATIONS FUNCTION

While Many Organizations Invest Heavily in the Advisor Relations Channel, Others are Being Left Behind

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ISG WHITE PAPER

INTRODUCTION

The third-party advisory (TPA) channel has always played an important role in the go-to-market plans of the largest outsourcing firms, but the market is evolving. Today, the TPA channel is being more actively managed by service providers of all sizes, from large multinationals to those with specialized service offerings. This change is in response to clients awarding smaller contracts with shorter timeframes and narrower scope. This opens up the field for more service providers to compete for advised deals. For smaller providers, one win from the TPA channel can make a significant difference in their financial results.

Small outsourcing service providers, however, are not the only ones evolving. ISG observes that many large firms have been ramping up their advisor relations activities by building out their teams and expanding their external spend with TPAs. During 2014, ISG noted the following trends:

1. Service providers with no dedicated advisor relations function began to put it in place.
2. Service providers with a single advisor relations full-time equivalent (FTE) began expanding their teams, generally with one leader in each region.
3. Service providers with regional advisor relations leaders started expanding the size of their teams within each region.

Prompted by these observations, ISG conducted a research study of 35 advisor relations leaders at outsourcing service providers. For the purpose of providing a more detailed analysis, ISG segmented the service provider responses into four categories:

1. Large Western Heritage.
2. Large Indian Heritage.
3. Small Western Heritage.
4. Small Indian Heritage.

ISG completed interviews in August, 2014, and first presented the results at the ISG Sourcing Industry Conference (SIC) in Dallas in September 2014.

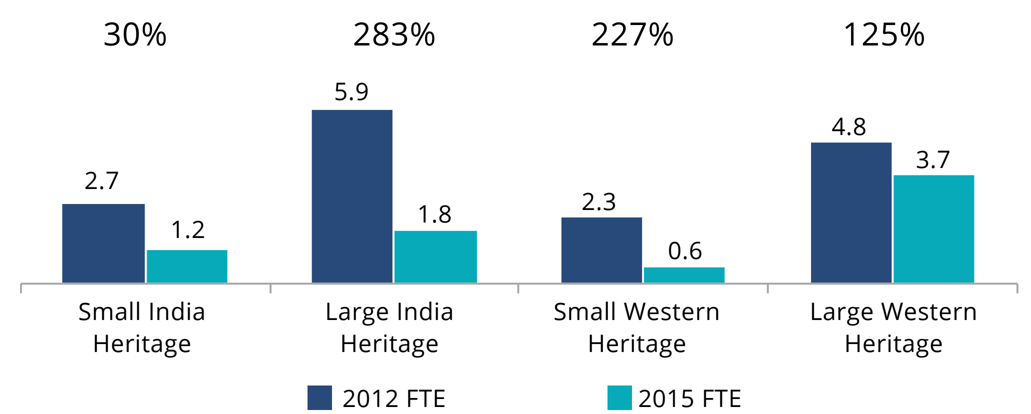
The findings of this research validate ISG observations, although they show that growth in advisor relations activity is happening faster than expected.

TEAM STRUCTURE

The average advisor relations team is expected to grow to 3.9 FTE in 2015 from 1.8 FTE in 2012. In a period of four years, the size of the average advisor relations team will more than double. That is a dramatic change!

We find that the average team size is expected to increase in each of the four provider segments. The smallest growth, percentage-wise, is a 30 percent increase while the largest is 283 percent (see Figure 1). Perhaps the most impressive growth is from the Large Indian Heritage firms, who expect to see their advisor relations headcount increase from an average of 1.8 FTE in 2012 to 5.9 FTE in 2015, giving them, on average, the largest advisor relations team size in the industry.

Change in Advisor Relations FTE Staff Size by Service Provider Category, 2012-2015



Conversely, the Large Western Heritage firms have seen the smallest advisor relation FTE increase despite having started with the largest teams back in 2012. These large firms have always had, and are likely to continue to have, a significant pipeline from the TPA channel, stemming from long-term relationships built over the years. This track record of success is being emulated by the other segments of the market, however, and, in many cases, competitors are working hard to chip away at what was once a significant competitive advantage.

BUILDING TEAMS

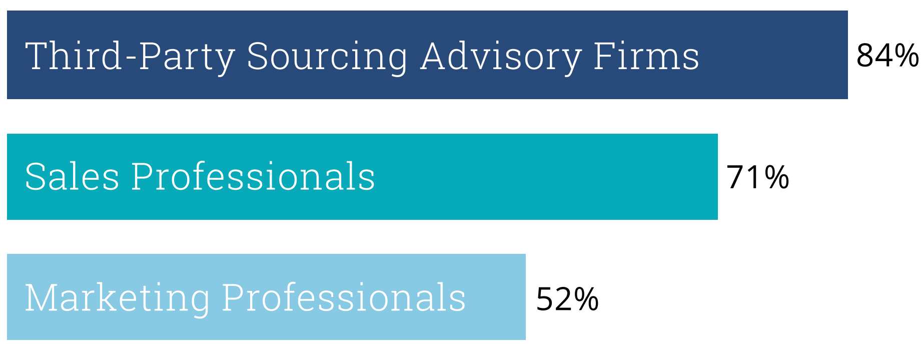
Firms approach analyst and advisor relations in one of two ways: with either joint or separate teams. Advisor relations and analyst relations are separate teams at 60 percent of service providers. Large firms are more likely to have separate teams while smaller firms are more likely to have integrated operations.

The 40 percent of cases in which the teams are integrated generally do so to ensure they send a consistent message to all market influencers: Research analysts, financial analysts and third-party advisory firms. The other primary reason for an integrated team is the company's limited financial resources.

Sixty percent of service providers have separate teams and many are adamant about the reason: Advisor relations and analyst relations serve different purposes and, therefore, should be managed separately. These service providers believe each function has distinct expectations. Analyst relations activities tend to be more focused on the early stage of the buying process, while advisor relations activities tend to be more related to late-stage buying activity. The strategies and tactics used and the measurements for success in these two phases are, likewise, different.

While most firms do not have a standard approach to building out a team, many turn to friendly faces at external firms. The two most common sources for new advisor relations team members tend to be people working within TPA firms or those with sales experience.

Top 3 Sources for Staffing Advisor Relations Teams



EXTERNAL SPENDING TRENDS

In 2015, 97 percent of service provider respondents expect they will spend the same amount or more on programs with third-party advisory firms. Half of those reported planning to spend more on external programs with TPAs than they did in 2014. ISG has measured planned spending changes since 2011, and, in each year, at least 50 percent of respondents planned to increase their TPA spending, showing a sustained increase in external spending with TPAs in recent years.

As outsourcing service providers increase their advisor relations efforts, they appear to be shifting funds away from the research analyst community. In 2012, analyst relations received 67 percent of the combined analyst relations/advisor relations spending. By 2014, the analyst relations portion had declined 5 percentage points, to 62 percent. Though this is a small shift that could be the result of a small sample size, we have observed some service providers making the significant strategic decision to allocate a larger portion of their external spend to TPA firms rather than to research analyst firms.

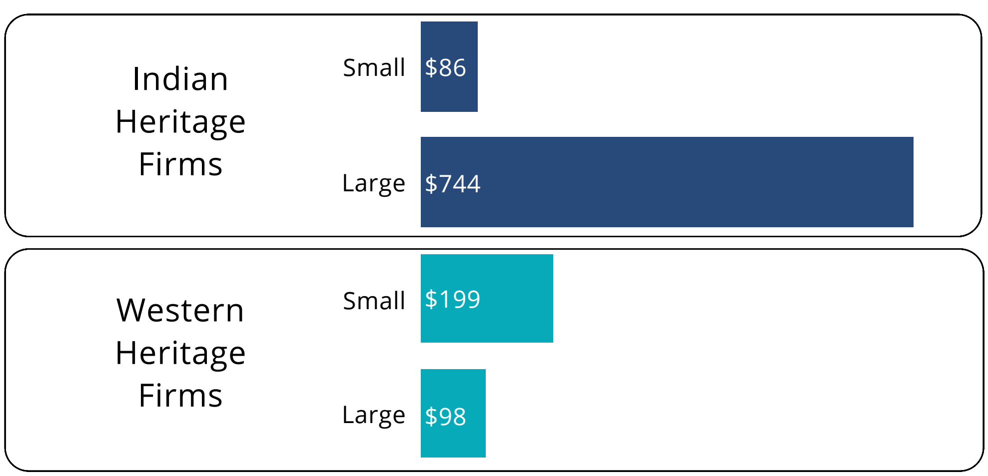
This observation no longer applies only to select service providers. For the first time, ISG measured an entire market segment that plans to allocate a larger percentage of its external spending with TPA firms. Our research shows that the Large Indian Heritage service providers allocated 58 percent of their spending to TPA firms in 2014 while no other category allocated more than 39 percent.

We find three primary reasons service providers increase their TPA spending:

1. Increased awareness within the third-party advisory community.
2. Internal recognition that the third-party advisor channel is strategically important.
3. Larger team sizes create opportunities for more programs.

The fact that the average external spend with TPA firms of the companies in our study was $201K does not tell the entire story. While the Large Indian Heritage firms have been the most aggressive in building out their advisor relations teams, they are also the most aggressive in terms of investing in programs with third-party advisors. On average, the Large Indian Heritage firms spend $744,000 annually on programs with TPAs, about seven times more than the three other segments of the market.

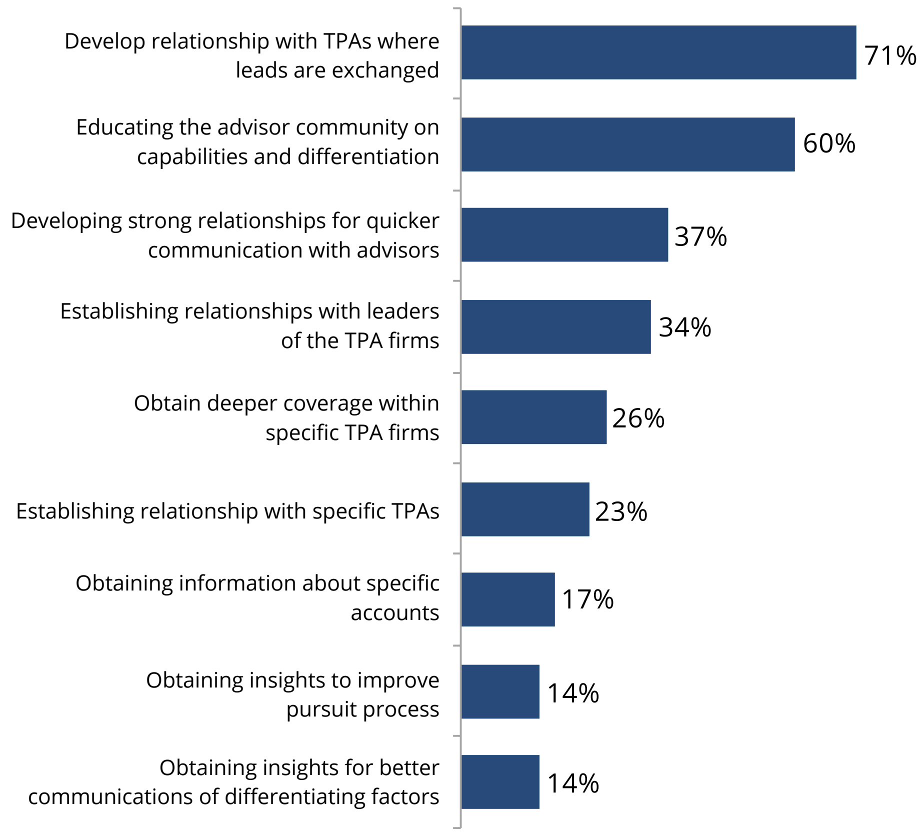
Average External Spending with Third-Party Advisory Firms ('000)



PRIORITIES OF ADVISOR RELATIONS LEADERS

More so than anything else, advisor relations professionals have two clear priorities: Developing relationships with advisors in which leads are exchanged both ways and educating the advisor community on their capabilities and differentiation. All four service provider segments share these top two priorities, though the Indian firms place a stronger emphasis on relationship building and Western heritage firms place more emphasis on education.

Priorities Advisor Relations Leaders



Advisor relations leaders have multiple objectives for engaging with sourcing advisors, including building stronger, deeper and additional relationships. The majority of these activities are geared towards identifying new sales opportunities. Two of the lowest-prioritized activities are related to obtaining insights to improve win rates. Typically, advisor relations programs are measured on their ability to both generate invitations and convert opportunities into wins. Currently, pipeline development is clearly the priority when engaging with TPAs. The most mature advisor relations organizations balance their efforts between pipeline development and sales process improvement.

ADVISOR RELATIONS CHALLENGES

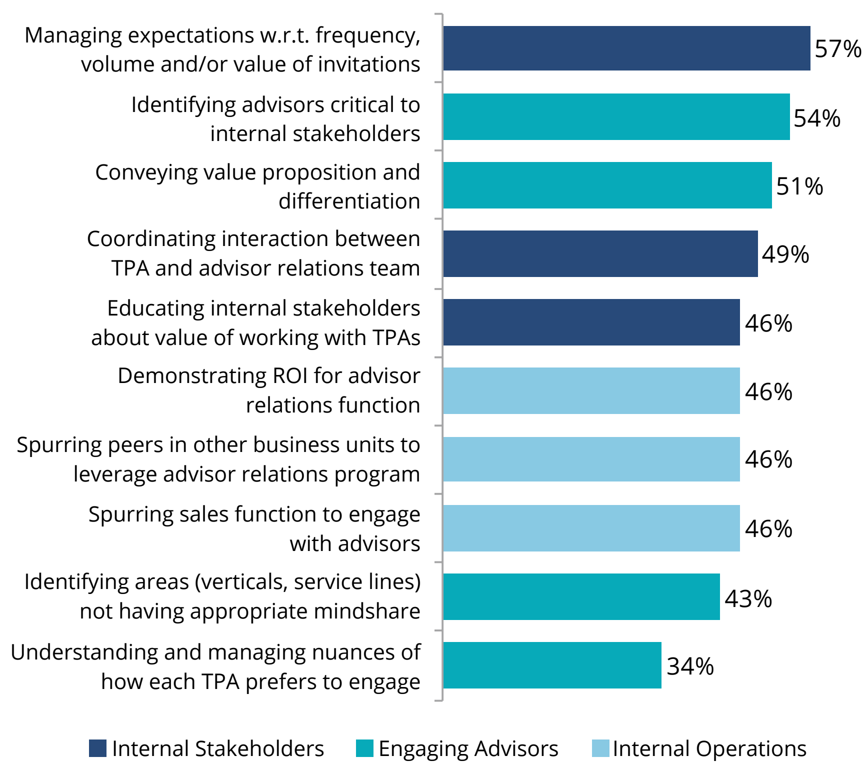
At ISG, we most often hear about the challenges a firm has related to engaging with specific advisors, the number of invitations a firm receives, and their opportunities to educate the community. Developing strong advisor relations is a far more complex endeavor than simply engaging with external advisors, however. Many of the challenges advisor relations professionals face are internal.

Three of the top five challenges cited by advisor relations leaders are related to working with internal stakeholders. Clearly, the reason to prioritize pipeline-building activities is in response to the distinct pressure from management to increase the frequency, volume and value of invitations, a challenge for service providers large and small.

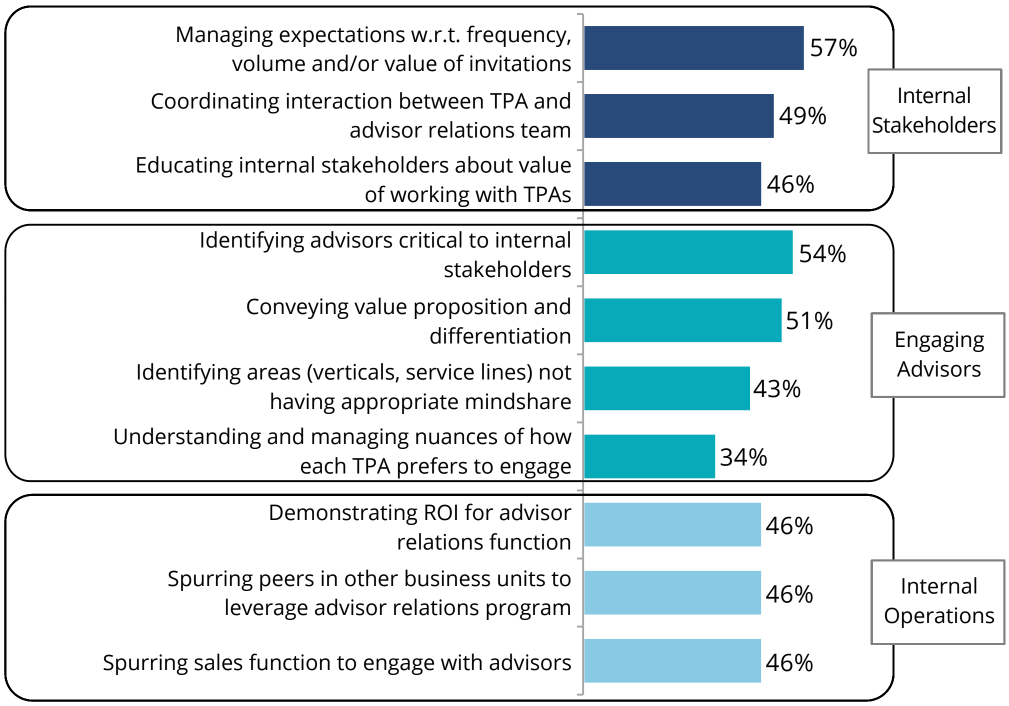
Further, advisor relations leads often struggle to coordinate interactions between their colleagues and the advisor community. In other cases, it is a challenge for internal stakeholders to recognize the importance of engaging with the advisor community.

Clearly, the advisor relations role must perform a complex balancing act between driving activities necessary to engage the TPA market, educating and advocating for the advisor relations function to maximize its potential, and developing operational programs to achieve both objectives.

Top 10 Challenges Faced by Advisor Relations Leads



Top 10 Challenges Faced by Advisor Relations Leaders, by Category



TAKEAWAYS

Here are the key takeaways from this research:

1. As service providers increase the size of their advisor relations teams, they will be able to more efficiently target how they engage with the advisor community. This, coupled with a growing service provider community that is dedicating energy to third-party advisor programs, will increase the demand for advisor attention. This will make it more difficult to attract the personal attention of individual advisors, especially if a personal relationship is not already in place.

2. Service providers that have already taken the proactive steps of increasing team size and developing tactical programs with third-party advisors will have an advantage over firms that are moving more slowly. Many large service providers continue to manage their advisor relations programs the same way they did five years ago and they are falling behind. Their competitors are actively managing their TPA activities at a very tactical level and are seeing results. Service providers that are not being proactive in how they manage their advisor relations program at a vertical and geographic level will be at a competitive disadvantage.

3. Today's advisor relations priorities center on building relationships that drive new opportunities. This is likely due to the internal pressures to increase pipeline and demonstrate return on investment. While the pressure to deliver today is real, advisor relations programs should be managed for the long-term. Invitation rates vary for a variety of reasons, including changes in a TPA firm's portfolio, incumbent service providers already established in the account and other factors. To obtain critical insights for converting opportunities into wins, service providers need to focus on ensuring that every advisor understands when to consider them for a deal. Tactically, managing against these two objectives should serve any provider well over time.

4. Third-party advisors need to help service providers clearly communicate how to best share information for maximum benefit. ISG plans to continue our research and communication in this area.

ABOUT THE AUTHOR

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Paul Reynolds leads Momentum, a division of ISG that provides research services to help service providers better target, win and retain business. Paul has 25 years of market research experience with specific expertise in methodology development, data analytics and research process design. Having found many service providers' Advisor Relations functions to lack appropriate analytics, Paul is working to develop innovative new approaches that allow for data-driven programs based on the unique needs of each client. His approach benefits Advisor Relations, go-to-market functions, sales, strategy, marketing, and market/competitive intelligence teams.

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Information Services Group (ISG) (NASDAQ: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data. For additional information, visit www.isg-one.com.

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