

# SENIOR CONSULTANT

The Voice of the Investment Management Consultant

## Major Plans Engage Retail Consultants

*Stephen C. Winks*

Smith Barney and Merrill Lynch, two of America's largest retail financial services firms, are emerging as major players in the institutional investment management consulting businesses. Of the 1,699 plan sponsors with more than \$100 million in assets that use consultants, Smith Barney Consulting Group has 65 plan sponsor clients, ranking it ninth among all institutional consultants and just three clients away from the sixth spot, held by Hewitt Investment Group. Merrill Lynch Consulting Services comes in at 14th with 46 plan sponsor clients having assets in excess of \$100 million.

The increasing presence of retail financial services firms with major consulting initiatives among the top institutional consulting firms reflects the metamorphosis that is occurring within the brokerage industry and the operating leverage of a national financial services franchise. The major U.S. brokerage firms have been actively developing their investment management consulting business for the last 10 years, and Smith Barney, Merrill Lynch and Prudential for the past 25 years. There are now thousands of brokers who consider themselves consultants with half or more of their business being derived from consulting. Though almost all of the top broker/consultants initially built their consulting business around high net worth clients, many have slowly evolved their business toward the middle market – between the retail market and the major qualified plan market – where institutional investors have assets between \$10 and \$500 million. It is not uncommon today for senior consultants to have \$250 million to \$1 billion under management, and have one or more clients with assets of \$100 million or more. The pipeline of broker/consultants making the transition to consulting is 10 times the size of those practicing as consultants today. In the next 10 years, do not be surprised to see all the major U.S. brokerage firms in the top ten among all major institutional consulting firms.

The practice of investment management consulting is becoming more relationship-driven which is the strength and point of leverage of a national retail brokerage franchise. Callon and the old SEI, now Capital Resources, both have decided to use Mobius rather than manage their own proprietary databases. Frank Russell Company, the top institutional consulting firm with \$561 billion in assets, is actually losing business to broker/consultants. There are thousands of senior consultants within the brokerage industry who are becoming well-known and respected in their local communities for rendering high level investment counsel and value. Those senior consultants with their collective network of local contacts all

across the nation represent a far more powerful delivery platform for investment management consulting than a distant expert two states away that you see maybe four times a year. If the plan sponsor enjoys college football or golf, or is active in the arts, the local senior consultant has an edge in building relationships.

Over the next 10 years, we will not only see an exponential increase in the number of large clients of \$100 million or more managed by senior consultants at brokerage firms, but we will also begin to see the

largest plan sponsors of \$500 million or more being won as well, particularly in the fast growing 401(k) area. The major consulting firm's weakness is in providing local support at the plan participant level which is the strength of a cooperative 401(k) marketing effort at a major national brokerage franchise.

Investment management consulting technology and the breadth of consulting services are being advanced daily, which also plays to the strength of a national brokerage franchise which has the economies of scale, the sophistication and the budget to take the consulting process much further than even the largest institutional consulting firms. (See "[Citigroup and BankAmerica Forge New Financial Services Delivery Platform.](#)")

**THE INCREASING  
PRESENCE OF RETAIL  
FINANCIAL SERVICES  
FIRMS WITH MAJOR  
CONSULTING INITIATIVES  
AMONG THE TOP  
INSTITUTIONAL  
CONSULTING FIRMS  
REFLECTS THE  
METAMORPHOSIS THAT IS  
OCCURRING WITHIN THE  
BROKERAGE INDUSTRY**

**Pension Fund Consultants With The  
Most Plan Sponsor Clients\*  
(As of the First Quarter 1998)**

Rank	Firm	Number of Clients	Marketshare (%)	Total Sponsor Assets (\$ billion)
1	Mercer Investment Consulting	196	11.5	417.8
2	Cambridge Associates	158	9.3	208.7
3	Capital Resources (formerly EI)	110	6.5	370.9
4	Callan Associates, Inc.	106	6.2	453.3
5	Frank Russell Company	78	4.6	561.2
6	Hewitt Investment Group	68	4.0	80.0
7	RogersCasey	67	3.9	542.2
8	Wilshire Associates	67	3.9	483.2
9	Smith Barney Consulting Group	65	3.8	22.6
10	Evaluation Associates	58	3.4	219.0
11	Segal Advisors	54	3.2	34.7
12	Cooper & Lybrand - Kwasha Lipton	52	3.1	431.4
13	DeMarche Associates, Inc.	50	2.9	77.2
14	Merrill Lynch Consulting Services	46	2.7	22.3
15	Ennis, Knupp & Associates	44	2.6	151.0
<b>Total</b>			<b>71.6</b>	<b>4,075.5</b>

\*This list represents only clients appearing in the Nelson Plan Sponsor database with total assets of \$100 million or more.

Source: Nelson's Pension Fund Consultant Database, March 1998  
Plan Sponsor Database, March 1998

*Senior Consultant*, July 1998.) As firms like Smith Barney take investment management consulting into the mainstream of the financial services industry, the franchise of the major institutional consulting firms atrophy as their range of differentiating specialized services gets far smaller.

Surprisingly, with ERISA having established fiduciary liability for plan sponsors 24 years ago, over half of large plan sponsors still have not engaged the professional investment counsel of an investment management consultant. This represents an extraordinary opportunity to put the relationship leverage of national financial services franchises to work to

penetrate a well-defined market with clearly delineated Department of Labor mandated needs.

The future for institutional investment management consulting within the major national brokerage franchises could not be brighter. As the over \$4 trillion in assets held by the top 15 institutional consulting firms disintermediate toward major national brokerage franchises, the character of the brokerage industry will have also been transformed in the marketplace. Investment management consulting will become the industry's primary delivery platform. ■

**Notes**

**SENIOR CONSULTANT**

THE VOICE OF THE INVESTMENT  
MANAGEMENT CONSULTANT

James P. Owen  
Co-Founder  
Stephen C. Winks  
Co-Founder, Publisher & Editor-in-Chief  
Sydney LeBlanc  
Consulting Editor  
Mamie Woo McNeal  
Production Editor  
Eddie Bryant  
Marketing Consultant



**Advisory Board**

Jerry Bott  
Merrill Lynch  
John Brock  
Brock-Hazzard/First Union Securities  
Dick Charlton  
New England Pension Consultants  
Bob Cluck  
Canterbury Capital  
Harold Evensky  
Evensky Brown & Katz  
Jeff Frum  
Wells Fargo  
Rich Gleason  
Salomon Smith Barney  
Kathleen E. Hegenbart  
Salomon Smith Barney  
Brian Hunter  
Prudential Securities  
Greg Hunter  
Alex Brown  
Bill Johnson  
CapTrust  
John Kelsey  
Salomon Smith Barney  
Keith Phillips  
Morgan Stanley Dean Witter  
Bob Rowe  
Morgan Stanley Dean Witter  
Dick Smith  
Capstone Investment Group  
Jim Yanni  
Yanni Partners

**SENIOR CONSULTANT**

1457 Crystal Springs Lane  
Richmond, Virginia 23231  
Ph 804-795-1642 ■ Fax 804-795-7703  
[WWW.SRCONSULTANT.COM](http://WWW.SRCONSULTANT.COM)