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WHITE PAPER

THE UNSUSTAINABLE MISMATCH IN PRICING FOR CORPORATE ACCESS

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As we have written about previously, corporate access is an area that is being fundamentally reshaped by MiFID II. After being ignored for most of 2017, recent attempts at price transparency have exposed a significant gap between the sell side and buy side's perception on what is the appropriate cost of a meeting. Based on everything we have seen thus far in 2018 our view has strengthened that the traditional providers of corporate access (the sell side) are going to need to perform a radical review of the economics of their corporate access offering and that this will have a significant knock-on effect for Investor Relations (IR) teams.

MiFID II is an all encompassing set of the regulations for asset managers and 2017 was spent grappling with the various challenges that the new regulations posed. The two primary areas of focus were ensuring compliance with the new trading requirements and also putting in place systems and tools for the evaluation and payment of research. Ironically, corporate access which the buy side have consistently rated as the service they value highest was largely ignored and consequently very little price discovery or preparation was done to deal with the fact that corporate access if paid for incorrectly will be heavily scrutinized by regulators. Compounding this is the fact that pricing for corporate access has historically been opaque which has further contributed to a protracted price discovery process.

What is now abundantly clear though is that the buy side is more focused on corporate access and is becoming significantly more vocal on what they will and will not pay for. The recent data points and messaging from the buy side are less than positive for the sell side and can be summarized as:

1. Buy side will not pay for meetings with corporates for whom they are holders;

2. Buy side are building their own corporate access teams to go direct to corporates (read our previous blog post on this trend);

3. Buy side may pay a minimal (read US$50-$150) fee for meetings they do take; and

4. Buy side may pay for bespoke trips and conferences but the pricing will vary.

This has far reaching implications for the entire corporate access ecosystem and will ensure that it operates very differently in 12-18 months' time.

To understand why, it is worth examining how Corporate Access has been traditionally "sold" on the sell side; why this contributes to the large gap between what the sell side have asked to be paid and what the buy side have offered to pay for meetings; and ultimately how a radical re-think is required on how corporate access as a business operates.

The sell side uses an expensive resource (equity sales people) to promote and confirm bookings for corporate access events. Every day sales people and corporate access teams chase the buy side to follow up on email event invitations that were sent to them. Although historically there was an argument to be made that equity salespeople have a deep understanding of what their clients are interested in, the reality in 2018 is that salespeople are spending the majority of their time selling their banks diversified product suite at the expense of actually talking stocks with their clients. There is now very limited visibility on what meetings the buy side is interested in and so the calling and messaging goes on. Many sales people will confess (privately) that anywhere up to 50% of their time is spent chasing and booking meetings *- for full disclosure, I was once that salesperson spending an inordinate amount of my day on the admin related to booking meetings.*

Let's apply this same way of operating to another industry, such as airlines selling flights. Imagine if an airline sold seats on their planes by having a team of sales people calling round their frequent fliers and asking if they were interested in flying to New York or London that week. It is very easy to see how unsustainable that business model would be. The cost of each seat would also have to factor in the annual salary of each sales person divided by the number of seats sold (alongside the normal operating costs) and naturally the price of the ticket would need to exceed that cost to make a profit.

Applying this same logic to the sell side corporate access model - a medium sized sell side firm will typically organize 10,000 meetings a year and employ 100 sales people across a number of regions, paying them an average annual salary of US$200,000. Assuming the salespeople spend up to an average of 50% of their day booking meetings (some more and some less), the cost of each meeting booked by a salesperson is US$1,000. The new reality for our medium sized sell side firm is that they are now sitting opposite their clients who are telling them they will pay between US$50 to US$150 for a meeting. Our airline example immediately springs to mind; airlines are sustainable businesses as they have embraced technology and sell tickets online.

It is this disconnect between the price the sell side want and the price the buy side are willing to pay that is driving both the changes already taking place in corporate access provision and those likely to happen in the future unless operating models change.

Already Happening

1. Corporate access teams are getting smaller, senior staff in particular have been the first to "leave";
2. Many asset managers after thinking seriously about the services they consume, have concluded that they can build the internal capabilities to directly facilitate meetings with corporates;
3. Sell side firms are being more selective about which corporates they take on the road;
4. Corporate access staff are spending more time on administration (controlling client access and reporting on services consumed) than on working directly with their corporate partners;
5. A select group of sell side firms have made corporate access the remit of the sales teams;
6. Sell side firms are restructuring their service offering to focus more on bespoke trips and conferences, areas the buy side have definitively stated they are willing to pay for.

Likely to Happen

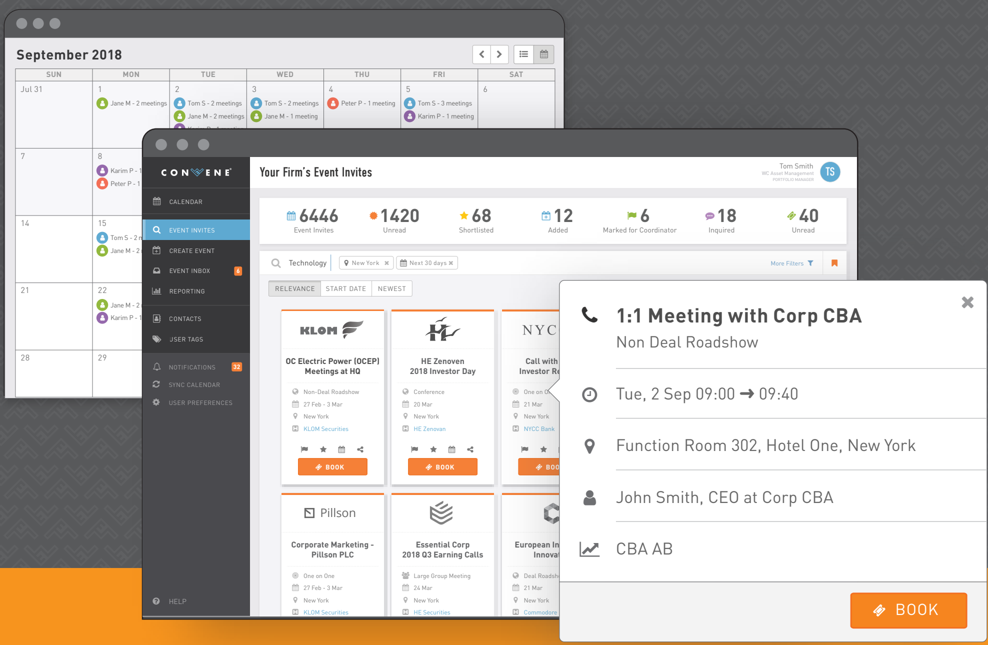
1. Large sell side firms will represent less than 50% of all corporate access meetings supplied, down from more than 80% in recent years;
2. Medium to smaller sized sell side firms will increase their share of corporate access meeting activity through offering a differentiated product;
3. Buy Side and Corporates will see a sharp increase in the number of meetings they organize themselves;
4. Conferences will grow in popularity (with the Buy Side) but not in number as the economics will remain challenging;
5. Analysts will increasingly need to offer their time to investors themselves in a "doctor's hours" style approach to getting the buy side engaged;
6. IR Consultancy firms will provide and facilitate much more corporate access.

At this juncture, unless the sell side embrace technology to reduce the cost of delivery and administration of corporate access meetings (much like the airlines embraced advances in technology to introduce online booking), the equilibrium of corporate access organization will further shift towards the buy side resulting in the business becoming costly and unsustainable. In this scenario it is easy to imagine firms without a differentiated offering exiting the corporate access provision business completely.

The market is good at showing the way forward and in this case the actions of the buy side are very clearly showing us the changes to expect in the next 12-18 months.

ABOUT WECONVENE

WeConvene is a global, independently owned web-based platform that automates corporate access consumption and evaluation for the investment community. Events large and small directly impact investment strategies and WeConvene provides value to buy-side, sell-side and corporate organizations by enabling efficient discovery, booking and tracking of meetings.



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