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MULTIFACETED MARKETING IN EQUITY DERIVATIVES – A SURVEY

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Although the organisations vary, structurers' and sales teams' involvement is built into banks' marketing strategies.

Growing faster all the time, sought after by investors and highly profitable, equity derivatives are now amongst the top money-making segments for corporate and investment banks, especially Société Générale and BNP Paribas, which now specialise in them. Société Générale's latest quarterly results show rising revenues in this area, amid generally downbeat business conditions for the Corporate & Investment Banking (CIB) division.

After the market's recent bout of turbulence, equity derivatives have a bright future, especially given their adaptability to the post-crisis environment. As Fabien Hajjar, global head of equity derivatives and funds at Calyon, puts it, "Equity derivatives offer us the opportunity to provide concrete solutions to various problems investors face: protecting or guaranteeing capital, improving liquidity on certain products, for example on secondary markets, and improving transparency on assets such as hedge funds by using funds in the form of managed accounts."

From traditional equity-based products to more complex mechanisms, whether they are designed for large clients such as institutional and corporate investors, private banking clients or individuals through branch networks, this market's diversity is reflected in the various marketing approaches that the banks have taken. As the world leader in equity derivatives (ahead of BNP Paribas), with 2007 revenues estimated at more than €3.4 billion (based on JPMorgan's January 2007 figures), Société Générale is structured around two divisions corresponding to two large product families – exchange-traded and structured. In the second division, personnel specialise in client types (institutional, retail banking, family business, private banking and wealth management) or countries.

Structuring – the lynchpin

Key players when it comes to marketing strategy, financial engineering and sales teams are involved in the client interface, be it directly or indirectly. "Our equity derivatives marketing takes place at several levels," explains Marie-Léone Gillet, head of European marketing for equity derivatives at Société Générale CIB. It starts upstream with preparation of proposals for salespeople to use in their contacts with clients. The troika of financial engineering, salespeople and marketing specialists work up these proposals together. Then downstream, after the salesperson has sold the product, marketing promotes it throughout the distribution network, specifically to the end-client. This is not to say pure marketing aspects are overlooked. On the contrary, the product is promoted through an emphasis on its design, just as with high street products. "Beyond the message and the innovation, the marketing format has its own importance. We are now offering our clients packaged, interactive solutions. We showcase an idea, in cooperation with specialists in new technologies, graphic design, and more," says the head of SG CIB. At its rival, BNP Paribas, structured products are managed on five platforms (Hong Kong, Paris, New York, London and Tokyo). More than 50 product engineers are at work on structuring, a key facet of marketing. "The team in charge of the product offer is Structuring," stresses Bertrand Delarue, head of derivative products structuring.

At JPMorgan, equity derivatives marketing is divided up by client type: distributors, branch networks, institutions and private banking. "This organisation gives us better awareness of the context of our clients, who are not all looking for the same products and services. Because we are specialised, we can meet their needs better," says Carole Savary, head of sales and marketing for distributor cients in France, Belgium and Luxembourg. The US bank has intertwined the structuring and marketing functions and created a London-based "marketers" function for these three countries. "Our marketing teams are also in charge of design, launch and follow-up of products," Savary adds. "To that end, they call on the resources of the structuring teams, who develop new products, and the marketing teams, who are dedicated to providing sales materials, brochures, presentations, reports, etc. with a staff of over 20 for Europe, the Middle East and Africa. This global platform also enables us to offer French clients an accurate, up-to-the-minute picture of other markets.”

The Calyon ‘control tower’

A relative newcomer to the equity derivatives market, Calyon decided to work through a centralised organisation. Created in June 2006, the marketing department of Crédit Agricole’s corporate and investment banking subsidiary operates like a ‘control tower,’ surveying the entire range of products and client types. “Our organisation is designed as a ‘hub' drawing from all the equity derivative teams, and it offers a global picture of the entire market. It thus helps us to promote and circulate product ideas for different types of clients in different regions,” explains Gilles Demonsant, Calyon’s head of marketing and development for equity derivatives and funds. “Our organisation is flexible. We are project-oriented and involve various areas of competence in our work. Depending on the product, we interact with structuring, pricing, trading, market analysts, fund specialists, and others.”

A pressing need for innovation

Marketing architectures differ, then, but all must face the same constraint: the need for innovation, at a lightning pace for some products. “The real problem in designing a new product is that it must be timely. Rapid innovation is fundamental in a competitive market,” declares Nicolas Pourcelet, managing director at Lehman Brothers, where revenues from European equity activities (of which equity derivatives represent a substantial share) have tripled in three years. At Calyon, there is a conscious effort to renew certain instruments extremely frequently. “The range of structures and payback methods, especially those aimed at the distribution networks, can be enhanced every two or three weeks, so that we can propose new investment solutions regularly,” explains Gilles Demonsant. “Products based on investment strategies and equity market fundamentals are based on ideas and proprietary research. These products need to be renewed every six months, because the market, clients’ needs and opportunities are constantly changing.”

But at JPMorgan, the approach to product design for the networks has taken another path. It is based on the idea of a joint project with the clients to create a ’bespoke’ solution. “The networks are always looking for innovative products that will make them stand out. We collaborate closely with them to gain a precise understanding of their needs and to design made-to-measure solutions, sometimes even working with and training their sales teams. And we often do this three to four months before the product is released,” notes Carole Savary.