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**Outsourcing Exhibit Sales: Keys to Success
By Michelle Bruno, CEM**

Outsourcing exhibit sales is an attractive option for organizations, associations and non-profit groups without the staff, expertise or budget to maintain a staff year round. Finding the right “outside” individuals or companies to “own” the customer relationships and promote the show brand can be challenging. At a time when outsourcing some functions like sales could help increase efficiency or save jobs in other departments, the option is worth considering. Any outsourcing strategy, however, involves due diligence, careful planning and consistent monitoring.

Specialty areas of the show floor and international pavilions are likely candidates for outsourcing exhibit sales when a higher level of expertise exists outside the organization. The National Industrial Fastener Shows (NIFS) based in New Albany, OH, have outsourced the Machinery and Tooling section of their show to a related trade association with relative success.

The Fastener Shows have handed over exhibit sales for China and Taiwan to agents in those respective countries. Commissions are paid based on the number of booths sold and exhibit spaces are assigned to the agents in advance. Although the arrangement has been somewhat challenging, “we find it easier than trying to deal with all 150 Asian companies individually,” says Susan Hurley, show manager for NIFS.

Helen Berman, president, Berman Media Sales Institute, based in Los Angeles, is a veteran trainer and media sales expert. She is guarded about outsourcing under any circumstances unless an organization is lacking in the resources and expertise to manage the process well. “My personal belief is that if you can do it internally you should do it internally. That means having the talent and resources to accomplish the goal. You need a manager to give staff the proper direction and maintain complete control over the most important part of your business—the relationships with your exhibitors,” says Berman.

For organizations that have few alternatives but to outsource exhibit sales, Berman recommends they engage in the appropriate level of due diligence including speaking to clients, colleagues and references before choosing a partner. “You also need to know who in the organization will be doing the selling. The president of the company may be outstanding but what if they assign a rookie to do the actual selling?” Berman warns.

During the negotiation process, potential service providers should be very clear about how they will communicate and how the relationship will work, says Berman. “If you don’t have any control, you need to stay abreast of things so you can catch opportunities or see any problems. If you are flying in the dark, you will ultimately be held hostage because they have the relationships with your customers and you don’t. You need to be very responsible in delegation,” she says.

Outsourcing works well if the outsourced company exhibits a level of expertise that exceeds that of the delegating organization. Passing on bad habits to the new company is a mistake according to Jefferson Davis, president of Charlotte, NC-based Competitive Edge. Davis, also known as “the tradeshow turnaround artist,” counsels show producers on how to improve exhibitor relationships, increase retention, grow net square footage and revenue, and increase advertising and sponsorship revenue. Davis believes that too many organizations sell real estate instead of engaging with exhibitors to “right size” the amount of space necessary to take advantage of the available opportunity.

Davis also believes that an evaluation of the outsourced company is critical. He suggests examining the company’s track record, philosophy (a consultative approach vs. a transactional one) and financial requirements. He recommends establishing clear goals (activity and results metrics), a reporting structure, exhibitor messaging framework and monitoring process. “You are essentially transitioning the relationship of your customer to a stranger. Delegate, don’t abdicate,” says Davis. He suggests requiring the outsourced company to send blind copies of all emails to the delegating organization at least during the first year.

Helen Berman agrees that setting and monitoring performance metrics is a key to a successful outsourced relationship. She suggests reviewing past shows, gross income and exhibitor histories to set a realistic baseline. Monitoring the company more closely in the beginning is prudent. “You might want to micro-manage and ask how much minutia they will reveal to you. After you’ve had experience with the group and they have performed, you can loosen the reins,” she says.

The amount of outsourcing recommended by sales experts varies by organization but outsourcing is a “mega trend” according to Jefferson Davis. “A specialized skill set is the key and the ability to leverage outside skills is important. If you are underperforming and see room for improvement and have tried an in-house approach and it’s not moving forward, you have to give it a try,” Davis says. He suggests transitioning to an outsourced group in steps. “Maybe even have a bit of competition between internal staff and the outsourced group,” he says.

Mysterious Profit

'Peso events' drive returns to the carry trade

Based on the Research of A. Craig Burnside, Martin Eichenbaum, Isaac Kleshchelski And [Sergio Rebelo](#)

Economic theory has been predicting the collapse of the carry trade for some time now, but the widespread currency-based strategy continues to pad balance sheets with profit. The carry trade works by borrowing money in low interest rate currencies and then lending it in high interest rate ones. Investors pocket the difference in interest rates as profit. Economic theory says the two exchange rates should adjust as more people exploit the interest rate differential, eliminating the profit potential. But this is not the case and the carry trade remains a successful staple for hedge funds and other investors. It sounds like a perfect strategy—almost too perfect. Behind the profits from the carry trade lurks a nagging question: Where does the money come from?

The carry trade is an enigma in the financial world. When experts attempt to explain its continued profitability using traditional risk factors such as consumption growth, stock market returns, and other more complex predictors, they fail miserably. The other possible explanation, “peso events,” has long been considered untestable. These rare and unexpected changes in the market, such as the sudden devaluation of a currency, can wipe out years of accumulated gains. Thus, higher interest rates in the lent currency may be the payoff for bearing the risk of a peso event. But determining the effect of an unlikely future event is something of an experimental nightmare.

Hoping to test for this, Sergio Rebelo (Tokai Bank Professor of International Finance at the Kellogg School of Management), Craig Burnside (Professor of Economics at Duke University), Martin Eichenbaum (Professor of Economics at Northwestern University), and Kellogg alumnus Isaac Kleshchelski (Assistant Professor of Finance at Washington University) collected monthly exchange rate data for twenty different currencies between January 1976 and January 2008. They assembled a variety of carry trade portfolios, each with the express purpose of probing the role of peso events. Many mathematical models later, they concluded these rare occurrences do indeed drive the strategy’s profit. Along the way, they also discovered a tantalizing new way to minimize the risk posed by the unpredictable.

Predicting the daily ebbs and flows—or cliffs and crevasses—of the foreign exchange market is still fraught with uncertainty, something that vexes central bankers, investors, and academics.

Small Returns. Big Risk?

The carry trade is often described as “picking up pennies in front of a truck,” according to Rebelo. The strategy’s percentage of profit is very small. For example, say you borrow one U.S. dollar at the current interest rate of 0.25 percent. You then convert it into Australian dollars, where you lend the money at Australia’s current 3 percent interest rate. At the end of the year, you take the Australian dollars, convert them back into U.S. dollars, pay off your loan, and pocket the difference. Congratulations, you made 2.75 cents, not accounting for transaction costs. On this scale, the returns seem pitiful. But because you are using borrowed money, you could scale your borrowing up to billions of dollars without using any of your own money. At that point, a 2.75 percent return looks pretty good. The profits appear sound and ripe for the picking. And they would be, if not for the possibility of a peso event bearing down on you at any moment.

The term “peso event” and its cousin the “peso problem” originated in the 1970s. Mexico’s massive national debt, its continued inflation, and falling oil prices were sending its economy into a tailspin. The government was stubbornly keeping the value of the peso fixed to the U.S. dollar. Despite the peg, Mexican interest rates were higher than those in the United States. Economist Milton Friedman thought this was due to the market anticipating a devaluation of the peso. Yet to some, the higher interest rate spelled “free money” for those daring enough to borrow in dollars and lend in pesos. Investors reaped steady profits until markets opened on September 1, 1976, when the peso was allowed to float against the dollar. Its value plummeted more than 50 percent in one day, and many people suffered tremendous losses.

Predicting the daily ebbs and flows—or cliffs and crevasses—of the foreign exchange market is still fraught with uncertainty, something that vexes central bankers, investors, and academics. While traditional economic theory emphasizes the role of international trade in moving exchange rates, trade may only be sufficient to explain long-term trends. “On a weekly basis, on a monthly basis, it’s very difficult to find fundamentals that correlate with exchange rates,” Rebelo says. “In the short run, a lot of what goes on in exchange rate markets is driven by speculation.

“One thing central banks worry about is the carry trade,” he continues. Short-term speculation can give bankers headaches as they try to manage exchange rates. “They really want to understand why there is so much interest in the carry trade and how it affects high-frequency currency movements.”

Minimizing Risk without Minimizing Profit

Many believe speculation in the carry trade centers around the probability of a peso event, which many experts thought untestable. Rebelo and his colleagues presented a simple solution: use options. Options provide wary investors with a form of insurance, allowing them, for example, to hedge against the depreciation of their high interest rate currency. Options limit losses in peso events but they can quickly eat into profits in tranquil markets if peso events truly drive the speculation.

Rebelo and his colleagues tested the peso problem hypothesis by assembling a series of mock portfolios both with and without options. When they injected a peso event into a simulation, the unhedged portfolios lost much more money than the hedged positions. In calm conditions, the profit difference between the hedged (2.5 percent annually) and unhedged (3.2 percent annually) portfolios was large enough to confirm the peso problem hypothesis (see Figure 1). The insurance worked. The options, Rebelo says, had “put up some road blocks so the truck wouldn’t come.”

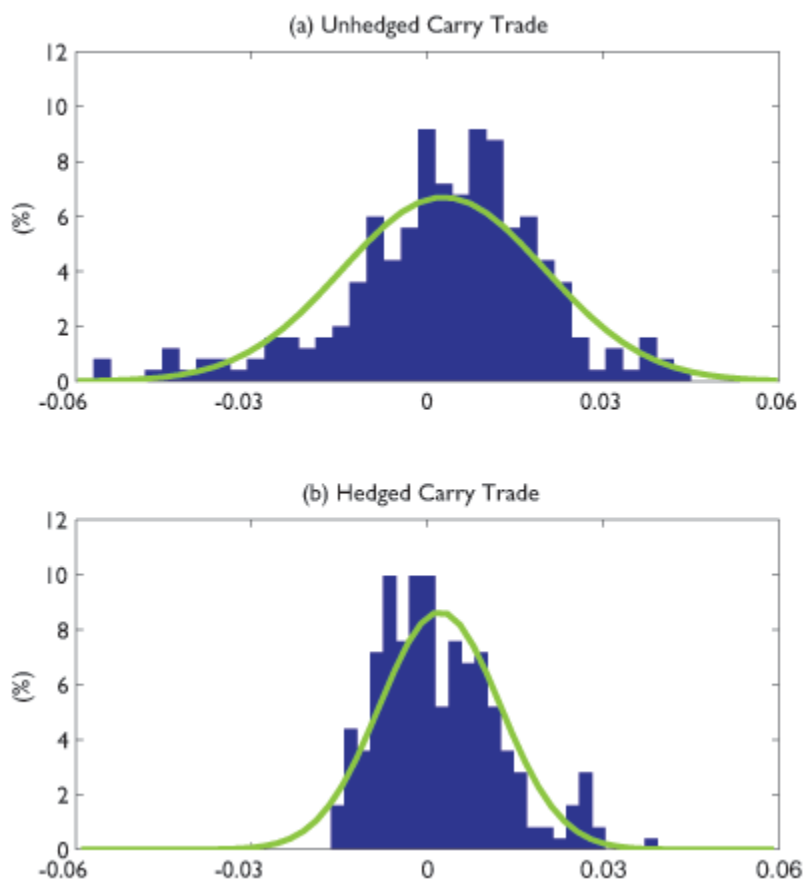


Figure 1. Although both versions of the carry trade produce positive payoffs on average, the hedged carry trade eliminates significant losses (note the truncated left tail in (b)).

But another mystery remained. The differences between the hedged and unhedged portfolios under normal conditions were strikingly small. The profits from hedging were lower, but not by much. Buying options merely skimmed off the top in good times and all but eliminated gut-wrenching losses during peso events. The hedged portfolios should not have performed nearly as well as they did. If the options had appropriately priced the risk associated with the peso problem, the cost of that insurance should have whittled away most of the carry trade's meager margins. "Academics hate to admit market failures," Rebelo concedes, but to the hedge fund managers he and his colleagues spoke with, the answer was clear: the options are too cheap.

Even without options, the carry trade has been historically profitable and stable on average. One dollar invested in the stock market in 1976 had made \$27.39 by May 2009, while that same dollar in the carry trade produced \$30.43 (see Figure 2). The carry trade's risk also has been substantially lower when measured by the Sharpe ratio (0.904 vs. 0.358), an index that weighs a strategy's profit against its risk. Even the recent financial crisis has been kinder to the carry trade. Since stocks peaked in October 2007, they have lost nearly 40 percent of their value. But the carry trade, which peaked in July 2008, is off by only 2.5 percent.

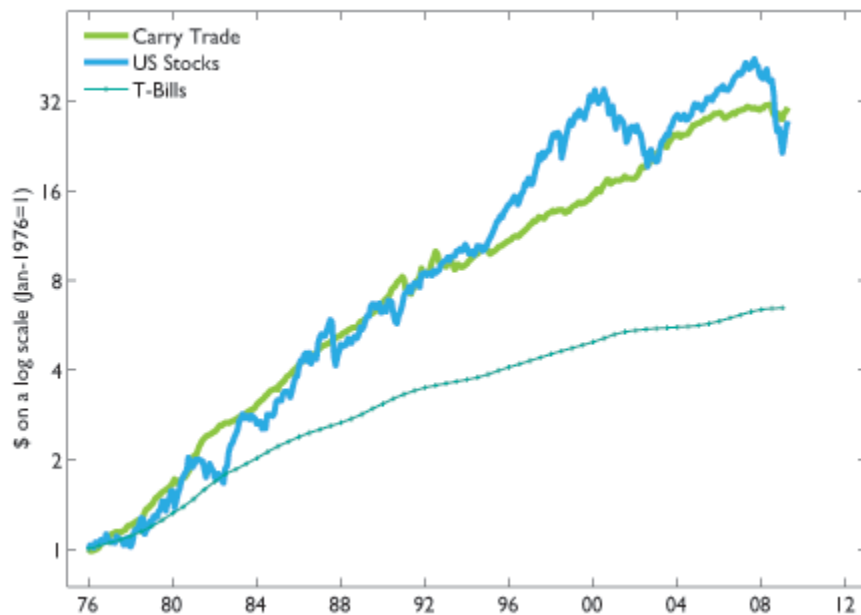


Figure 2. One dollar invested in 1976 in the carry trade (red), the stock market (blue), and Treasury bills (black). By May 2009 the investor in the carry trade has the most money (\$30.43) compared to the other strategies (\$27.39 for stocks and \$6.47 for Treasury bills).

Despite the carry trade’s relative stability, investors are keenly interested in its mechanics. “People in the investment community, the investment practitioners, really care about it because they want to know—is this really picking up pennies in front of a truck?” Rebelo says. “Or is it a strategy that might work for a while?”

“If it’s so good, why is it that people don’t do more of it?” he reflects. “That’s the big puzzle.”

Optimizing Budgets During Tough Economic Times

By Michelle Bruno, CEM

Budget analysis is not synonymous with cost cutting. Although reducing expenses is a natural impulse for managers during tough economic times, experts believe such an approach is short sighted. The goal, in good times and bad, should be budget optimization involving a holistic top to bottom perusal of revenue streams, expense allocations and their relationships to the bottom line. With the recession appearing to ease up only slightly, it may be a while before true recovery comes to the exhibition industry. Budget optimization is at the top of the list of priorities for organizations hoping to survive the downturn.

The current downturn may be deeper and last longer than previously anticipated. “Sometimes [a market correction] is good for business because it shakes out low-hanging fruit. This particular economic downturn is like none other that we’ve ever experienced. In previous times, we were out of the recession before it was acknowledged that we were in it. When we get back, it won’t be the same. Everyone’s looking for help,” says MaryAnne Bobrow of Bobrow & Associates, an Association and Meetings Management firm based in Citrus Heights, CA.

During difficult economic times, businesses are forced to think creatively about increasing market share in existing segments and expanding into new markets. Budget optimization provides a framework for

decision-making about how, when or if it is feasible to expand, take on new clients or provide new services. Bobrow suggests that organizations ask some fundamental questions such as “How much are we willing to spend *now* on our marketing, are there niche services that our business model can accommodate, what will the incremental costs be for adding new services and if we add new services, will we earn a profit?” she says.

Candy Adams, “The Booth Mom,” at Defiance, OH-based Trade Show Consulting, is an exhibition industry specialist, trainer and speaker who educates industry professionals on budget issues. She offers clients four guidelines for optimizing budgets especially during tough economic times as follows:

1. Review all discretionary expenditures and ask:
 - Does this expenditure get the organization closer to meeting its goals and objectives?
 - What happens if the company doesn't make the expenditure or does it differently?
 - Will a change be noticed by individuals who matter (i.e. attendees/ exhibitors/press)?
 - Will a change be necessarily perceived as negative or how can the organization present it as a positive?"
2. Look at all mandatory expenditures and ask:
 - How can the organization do this less expensively and achieve the same result?
3. Rely on your long-term partners'/vendors'/contractors' expertise to help you through the tough times with cost-saving ideas and efficiencies.
4. Don't confuse cost with value. “Too many people will spend time sending out RFPs to other suppliers. Cutting costs can [sometimes] have poor results. There is value in working with established suppliers. It's a matter of saying look at value first and factor that into the cost. You get what you pay for,” Adams says.

Exhibition industry online discussion groups such as MiForum are consistently populated with cost-cutting ideas, however, Dave Lutz, of Velvet Chainsaw Marketing, recently suggested a more strategic approach. “I'd recommend being more bullish and aggressive on attendee recruitment. If your attendance is down and you make noticeable cuts, it may hurt you more in the long run. Also if you lose an attendee, exhibitor or sponsor for one year, the likelihood of them returning is drastically reduced. It's better to get where you need to on the revenue side. Some associations need to look at 2009/10 as a year that they invest into their long-term future and utilize some of their reserves (if they have any),” he says.

During tough economic times, budget flexibility becomes critically important to organizations. “A budget is an educated guess. What we are saying with a budget is that at this particular time next year, this is what we should have spent, this is what we should have earned, and this is the profit we should have made. Don't develop a strategic plan by saying this is what we will do and it's unchangeable. [Organizations] need to have flexible budgets,” Bobrow says. She recommends developing numerous budgets that reflect different scenarios (best-case, worst-case, new clients, no new clients, etc.). “Don't think of budgeting as a once per year project. Look at it monthly,” she adds.