

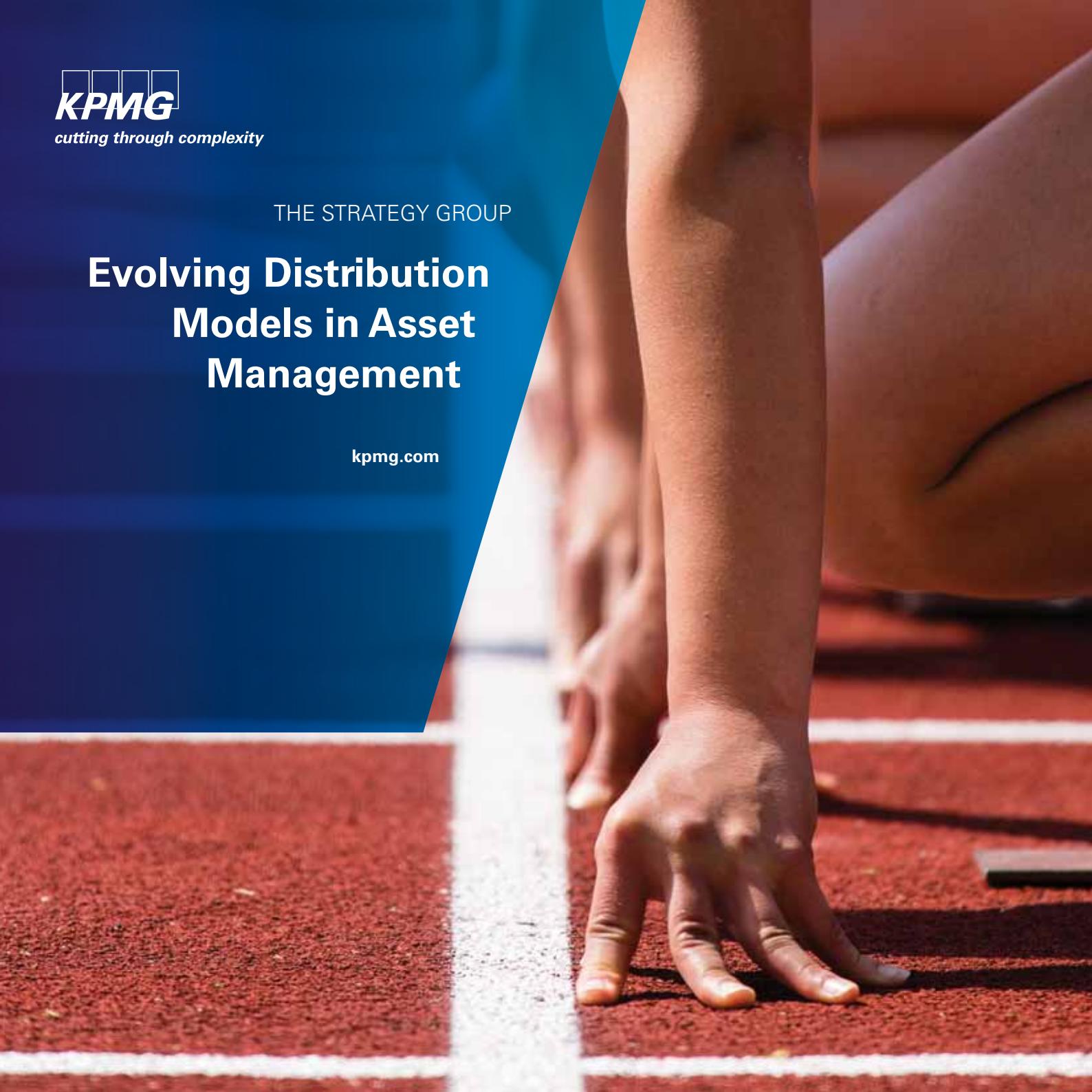


cutting through complexity

THE STRATEGY GROUP

Evolving Distribution Models in Asset Management

kpmg.com



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> FOREWORD

“The world has changed and we must respond if we want to survive and grow. We need to connect with clients much better and understand what they want rather than telling them what they need.”

Head of Distribution, US Asset Manager

In 2011 we launched the first report in our *Agile Asset Manager* series of thought leadership papers for CEOs and their top management teams. In that publication we focused on *Organizational Strategies and Competencies to Outmanoeuvre the Competition*.

In this second report, we focus on *Evolving Distribution Models*, and in particular the way in which distribution functions are structured, organized and managed.

We look at the forces that are leading to a reshaping of distribution functions and how different elements of the model are changing. We provide insight into the strategies being deployed and pose questions in relation to whether distribution functions are structured in the best way to optimize client proximity, if client relationships are being managed in the most effective way across the business and how managers are upskilling and enhancing capabilities. The discussion should inform the evaluation and development of distribution models and functions.

To supplement and challenge our own thinking, we interviewed 25 CEOs and Heads of Distribution from a range of leading global asset managers with US, European and Asian footprints covering retail and institutional channels. We would like to offer a special note of thanks to all those participants who graciously shared their time, perspectives and insights.

We hope that you find the paper thought provoking. We welcome your comments and thoughts on any of the issues raised or other topics that you would find it valuable for us to cover in future publications.

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> EXECUTIVE SUMMARY

Asset managers are rethinking and reshaping their distribution models to protect and enhance client relationships, revenues and margins

Asset managers are constantly under pressure to capture flows, grow assets and protect margins. In many markets the available asset and revenue pools have contracted, with reduced investor confidence and volatile markets translating into a combination of weaker inflows, increased price sensitivity and the growing adoption of lower cost passive products.

Competition for assets remains intense. It is notable that in many markets flows have concentrated among a smaller number of players and funds. At the same time, the wave of regulation has added cost and complexity to business and operating models, placing further pressure on margins. The regulatory environment continues to evolve at a hectic pace but there remains a lack of policy alignment across borders.

"Asset managers will have to move away from the 'siloed' product-push model of the past and build much deeper relationships with clients if they are to protect existing business and capture opportunities."

CEO, US Asset Manager

The short and medium term situation is anticipated to remain challenging for several reasons. Despite some recent improvement, the economic outlook is fragile. The Eurozone crisis is not fully resolved, global growth is relatively weak and further shocks appear to have a reasonable probability of occurring. In addition, investor surveys continue to suggest that confidence in the industry's ability to deliver target performance levels remains low, placing additional pressure on fees.

Yet the longer term prospects are both significant and positive. The asset management industry has a significant amount to gain from the demographic and social shifts taking place across developed and emerging markets, which combined with increasing global wealth, presents considerable opportunities.

Irrespective of an asset manager's market, segment or channel focus, the effectiveness and efficiency of its distribution function is critical to protecting existing assets and capturing new opportunities. We predict that the supply-led, product-push

distribution model which has served the industry well over many years is no longer the most appropriate in the prevailing and medium term environment. Investors and intermediaries are coming under increasing pressure to justify the value-add for their charges. They are looking for managers to evidence a deeper understanding of their needs and provide better value, products, services and solutions. As a result, power and influence is shifting to those nearest the client.

We predict that successful asset managers will be those that create deeper relationships with clients and intermediaries within their target market segments and are able to develop a more focused and productive dialogue based on needs.

Our research supports this, with many leading asset managers already looking to rethink and reshape their distribution models in an attempt to regain ground, increase their relevance to clients and better position themselves for growth.

Our key findings are:

➤ **Asset managers must create a distribution model which best fits their business strategy:**

Many interviewees recognized the need to restructure and better organize their distribution model to focus on its key differentiators and better support the sales strategy. Some are moving to a global model, while others are choosing a regional structure, with the decision often influenced by the diversity of the manager's geographic footprint, target client segments and organizational structure, plus the influence of the parent.

US asset managers in particular tend to exert a strong centralized influence over their regional businesses. In recent years several have moved front office activities onto a global model in addition to the support functions that were already globalized. The key challenge with a global approach is ensuring that the chosen model has the same flexibility to adapt to changing client and local market requirements as those players executing regional and local models.

➤ **Breaking down silos is critical to improve coordination, collaboration and effectiveness:**

Many asset managers go-to-market and manage relationships in a fragmented way. For example, investors and distribution often have multiple touchpoints with a client and limited internal dialogue to coordinate coverage. Much greater and tighter coordination across and between distribution, portfolio managers and operations is key to improving the quality and effectiveness of client coverage and interaction. This requires clarity around roles, responsibilities and objectives. To support change, measures and incentives often also have to be realigned.

➤ **Client segmentation and improved coverage models are important to enhance the quality and effectiveness of client interactions:**

Client segmentation supported by appropriately differentiated and structured coverage and service models has an important role to play in driving consistency and focusing scarce resource around clients based on value and opportunity. It can drive deeper relationships, improve sales effectiveness and increase share of wallet. While this has been on the agenda of many leading managers over recent years, progress is often hampered by a lack of transparency into client profitability and the cost of existing models, different perspectives on the scale and nature of future opportunities and the politics involved in breaking away from legacy positions.

➤ Deeper skills and capabilities are required to support richer and more relevant client-centric dialogues: Many asset managers are increasing investment in technical and product knowledge training, as well as broadening the development focus to cover structured relationship development and sales skills. Others are also considering how to better leverage internal and market data, intelligence and insights and deliver these to distribution at a greater frequency to better inform and shape client conversations.

➤ **The broader operating model must be aligned to enable and deliver the intended change:**

Organizing for success requires close alignment between the business and operating models. Processes, operations and IT, governance and incentives must support the evolving model, drive improved efficiency, reduce complexity and encourage increased internal collaboration.

> DISTRIBUTION HAS A CENTRAL ROLE TO PLAY IN CAPTURING EMERGING OPPORTUNITIES AND ENSURING THAT THE BUSINESS IS DELIVERING A PRODUCT AND SERVICE PROPOSITION THAT MEETS CLIENTS' EVOLVING NEEDS

The global financial crisis and the long slow recovery from it for many markets has been exceptional not only in its severity and longevity, but also in the breadth and depth of its impact. Asset management has been impacted heavily and many of those we interviewed agreed that there

will be long lasting implications as the industry seeks to respond to the changing economic, regulatory, political, social and technological landscape.

The majority of interviewees were of the view that the asset management

industry must reshape and accelerate its professionalization in order to respond to the current challenges and capture the growth opportunities as markets emerge from the crisis.

Challenges

How best to grow revenues and improve margins in a challenging market climate

Low interest rate environment and prolonged period of economic and political volatility

Ongoing product polarisation, fund flow concentration and pressure on fees

Industry over-capacity and increased competition

Increased regulatory burden and stubborn cost bases

Opportunities

New wealth pools and evolving client needs create multiple opportunities

Increased global wealth

Globalization of clients and markets

Shift from Defined Benefit to Defined Contribution pension schemes

Ageing populations and increased healthcare funding requirements





Distribution is often the first line of client interaction. It has a critical role to play in opening the client up to the full potential of the manager and embedding the more client-centric, relationship-driven model which is widely regarded as the direction of travel by the CEOs we interviewed.

The product-push, supply-led model which had served the industry well has come under increasing scrutiny. Relying on product or performance alone to attract flows has only proved to work successfully for a few managers which have dominated within specific market segments or strategies.

Investor demands continue to evolve. Outcomes and protection have become more popular in addition to the traditional capital appreciation and income products. Interview participants and our own research suggests the demand for 'solutions' appears to be a more permanent shift because product structuring has become more sophisticated with, for example, the increasing use of derivatives.

Institutional clients are looking for solutions that can match their long-dated liabilities in a volatile and low yield environment. Retail clients are demanding outcome-orientated solutions which are simple, transparent and easy to understand. Products such

as risk adjusted multi-asset, target date and protected funds, as well as low cost discretionary accounts are expected to show continued growth.

While the shift to solutions provides an opportunity for asset managers to deepen relationships and gain a greater share of investment flows, it inevitably increases the complexity of the sale, service and relationship management. It will necessitate a much deeper understanding of client motivations, needs and requirements.

As the battle to retain assets and capture new flows intensifies, particularly given the level of over-capacity in pockets of the industry, asset managers must carefully consider how they will add value and differentiate themselves in a new demand-led environment and what it will take to create genuine client intimacy and multi-faceted long-term relationships.

Distribution functions have a critical role to play in responding to these challenges. In addition to winning business, they are central to retention, capturing emerging opportunities and understanding and responding to evolving client needs.

However, our experience of working with leading asset managers, supported by

the views of interview participants, has highlighted that many have yet to respond. Reshaping the model and improving distribution capabilities is now high on the agenda for many top management teams.

Over the following pages we discuss the key findings from our research.

"We need to be able to help clients through the 'thinking' rather than just push product. That will require a much more holistic and coordinated approach which in turn means that most of the industry will have to dismantle and rebuild its approach to distribution."

**Head of Institutional Business,
European Asset Manager**

> ASSET MANAGERS MUST CREATE A DISTRIBUTION MODEL WHICH BEST FITS THEIR BUSINESS STRATEGY

Much of the recent market commentary on reshaping distribution functions has focused on changes to organizational and team structures. However, our research suggests that structural responses are only one component of change.

Irrespective of whether an asset manager is retail or institutionally focused, a global 'waterfront' player, domestic manager, boutique or any other model, distribution must be structured in a way that ensures alignment with the broader strategic ambitions of the business.

A number of models are evident but the most prevalent are those designed either around client or product and global or regional principles:

- **Client vs. Product:** We have observed an increasing trend for asset managers to restructure distribution functions around client types rather than product areas. This is underpinned by a desire to better understand investment objectives, product and service needs. We believe for many managers this can be the most effective way to build a deep understanding of the needs of different client types. It can also help to move the organization away from a product-push mentality.

- **Global vs. Regional:** With asset managers looking to adopt structures which meet the specific characteristics of their client base and also drive efficiencies, the question of whether to adopt a global or regional distribution model remains a challenging one.

Global structures hold the promise of greater efficiencies through the sharing of capabilities and resources, consistency and faster decision making, but are often criticized for not providing a framework to support local requirements and variations. Several CEOs also noted that the expected synergies and benefits are often overestimated and fail to materialize as anticipated. Regional structures can enable greater proximity to clients, offer increased flexibility to meet local requirements and allow managers to tailor strategies to specific market structures and channels which can vary significantly by geography. However, they can also lead to complexity and duplication of both effort and cost.

All approaches can work. Indeed, we see a number of players looking to implement a hybrid structure, with global and regional aspects tailored to meet the needs of specific target client segments. This seeks to generate the benefits of both but requires strong leadership, management alignment, clear roles and responsibilities and effective communication. Another recently introduced a global management overlay to a regional distribution and client service framework. The intention was to drive efficiencies and increase consistency around aspects such as risk management, policies and standards. However, they also recognize local market and client needs are different, particularly in less mature emerging markets and have maintained local distribution capabilities to support the global framework.

There must also be a disciplined approach to the identification and promotion of best practice. This is important to leverage capabilities, enhance efficiency and minimize duplication. It is also critical that the chosen

"You have to be clear about what you want to be, what you are offering to clients and how you can help them. It is the core of building a long-term relationship."

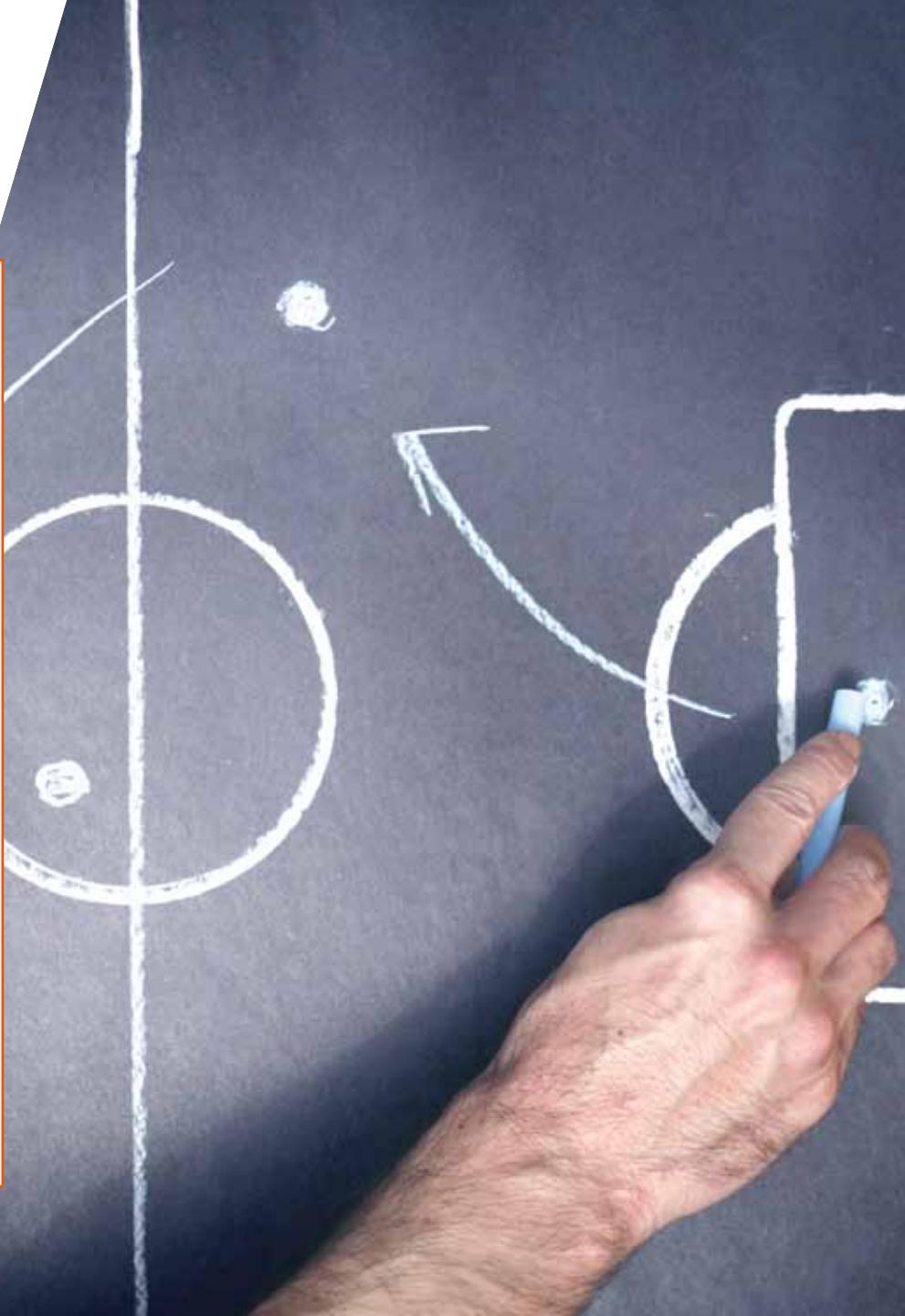
Head of Distribution, European Asset Manager

model has the flexibility and agility to be adjusted to changing client, channel or market requirements, as well as different levels of business maturity and varying economic environments.

Key insights

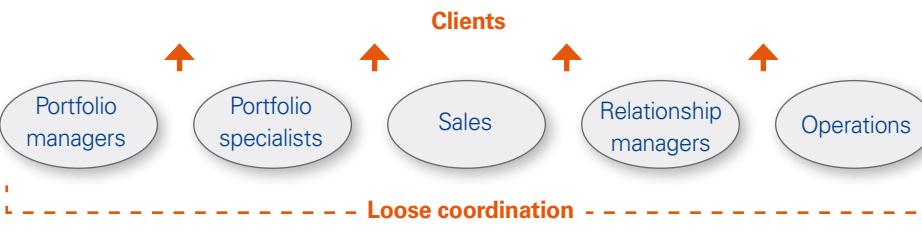
Many asset managers recognize the need to reshape their distribution model. Our research indicates that best practice will require managers to develop a model which:

- Supports the business and its strategic and tactical objectives. This could include focusing investment on targeting client segments that are considered key priorities.
- Is aligned to the manager's target client base (e.g. establishing distribution teams to cover particular client types).
- Encourages standardization and consistency of approach to generate cost efficiencies (e.g. a shared global CRM system), but flexible and agile enough to respond quickly to changes in local market conditions (e.g. local compliance teams to adapt marketing documentation).
- Is underpinned by clarity of roles and responsibilities. This is particularly important if a hybrid model encompassing global, regional and client aspects is being adopted.



> BREAKING DOWN SILOS IS CRITICAL TO IMPROVE COORDINATION, COLLABORATION AND EFFECTIVENESS

Pre-financial crisis model



Irrespective of the business strategy or the distribution structure of an asset manager, interview participants agreed that the 'internal value chain' will compress to facilitate much closer working and improved client interactions.

Historically asset managers' key functions – the internal value chain that delivers the company's proposition to clients – have typically operated in silos, with a fairly loose coordination between distribution, investment management and operations. This is perhaps not surprising given the product-push model which often did not reward cross-team or cross-functional results.

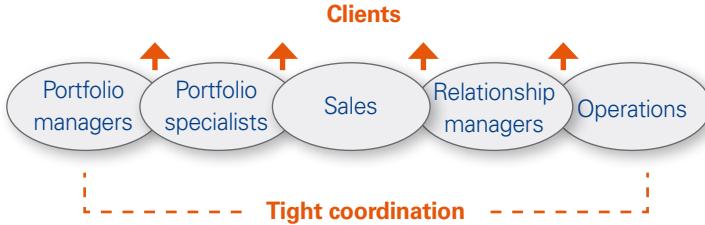
The promotion of a fragmented client engagement model is more likely to cause a sub-optimal dialogue, missed opportunities and in numerous cases internal competition between teams. This is particularly evident when a 'solution' or 'multi-asset' proposition is required, which often requires a multi-disciplinary response across distribution, portfolio management teams and operations.

One asset manager we interviewed recognized the issues and was finding it particularly difficult to bring together investment capabilities across various European locations to develop client specific solutions.



We commonly see asset managers that have multiple relationships with the same client within and across their internal functions. While this can be the result of a structured client coverage and relationship development model, too often the contact strategy is the result of incremental expansion, underpinned by opportunities and personal relationships. In many businesses, the relationships overlap, the quality of client contact information is poor or patchy and visibility into the specifics of the dialogue can be limited. This has led to a lack of coordination and often provides the client with a confusing experience. Competitors with a more tightly coordinated approach are able to make a stronger impact, identify and develop opportunities better and potentially build more enduring relationships.

Emerging model



Closer collaboration and coordination should also encourage regular information flows between distribution, investment management, operations and senior management. In other words, the financial, front office and operating model communities. While it could be argued that distribution has the most visibility into client demand and market trends, portfolio manager teams are best placed to translate these into client ready solutions. By bringing investment management, distribution and operations closer together in an ongoing strategic and tactical dialogue around clients, an asset manager will be much better placed to act in a coordinated and cohesive way and optimize client opportunities.

The model does not necessarily require wide-scale structural change. However, it is

fundamentally client-centric and requires the organization to put the client at the centre of planning and operationalizing strategy. The key often lies with being more explicit about roles and responsibilities, redesigning processes, increasing communication flows and building formal and informal networks within the business. Over time a shift in culture follows and reinforces the other factors.

"Structure should be a means to an end rather than an end in itself – getting closer to clients and making sure we pull together must be the aim. It is simple to say but often very difficult to make work effectively in a global business."

CEO, US Asset Manager

"There is a pressing need to ensure that all parts of the business work much better and more effectively together. That is what clients expect and if we don't do it, our competitors already are."

CEO, ASPAC Asset Manager

The research indicates that asset managers that have compressed the internal value chain and brought together the business more effectively, have generated a range of benefits, including:

- **Improved focus and efficiency** by empowering individuals around specialist activities. As an example, many asset managers are reducing the burden of internal administration around client servicing and reporting by expanding and strengthening sales support and operational functions. Others are creating relationship management roles which are responsible for leading the development and maintenance of existing client relationships and protecting the 'back book'. A number of those interviewed estimate that internal administration and client servicing can account for up to 40% of distribution staff's time. Reallocating such activities allows distribution to focus on value-adding activities such as client coverage, building relationships, improving technical knowledge and coordinating go-to-market with other functions and teams.

- **Improved effectiveness** by breaking down silos and bringing functions together. As an example, the product specialist role can help connect different client relationship teams, link the distribution function more closely with investment management and product design and provide expert content to support the sales team. This role can also reduce demands on portfolio managers' time. A number of the organizations we interviewed are looking to bolster product specialist capabilities for these reasons.

- **Increased insight and responsiveness** by encouraging the establishment of formal and informal networks across the business which facilitate and increase the sharing of knowledge, insight and ideas.

To support closer collaboration it is likely that incentives and measures will need to be reviewed and realigned, a topic we cover later in the paper.

"Many distribution functions have lost the ability to genuinely listen to clients. They were established in a world where they pushed the hot product of the moment, irrespective of a client's broader needs and requirements."

Head of Distribution, US Asset Manager

Key insights

Distribution, portfolio managers and operations often work in silos rather than as one team, diluting the effectiveness and efficiency of client engagement. The research suggests that best practice will require managers to break down silos across their business by:

- Clarifying the roles and responsibilities of existing functions to make it clear where accountability sits. This encourages cross-functional dialogue as functions are discouraged from performing activities that are outside their remit.
- Improving the effectiveness of functions through specialization (e.g. placing client service responsibility with relationship managers allows sales staff to focus on sales).
- Creating or bolstering roles such as that of the product specialist to improve cross-functional connectivity and support distribution by improving the quality of product-focused client dialogue.
- Encouraging regular information flows and insights from distribution to portfolio management and operations and vice-versa (e.g. through the establishment of monthly client account meetings).



“We recognize the need to bring together capabilities and have now co-located a number of teams from across our European offices to enable us to offer genuine client solutions.”

CEO, European Asset Manager

> CLIENT SEGMENTATION AND IMPROVED COVERAGE MODELS ARE IMPORTANT TO ENHANCE THE QUALITY AND EFFECTIVENESS OF CLIENT INTERACTIONS

“Segmentation is essential. In today’s environment you need to be much more focused on who you want to target.”

Head of Distribution, US Asset Manager

Compared to standard practices in other industries, the interviews highlighted that asset managers are relatively poor at segmenting the market and then deploying segment specific distribution strategies and client coverage models.

Many of the CEOs we interviewed questioned whether current coverage models take appropriate account of where new flows are anticipated to come from, where risks exist in the existing book, how these can be best protected and where cross-sell opportunities are greatest.

Without segmenting clients it is harder to develop relevant expertise, observe trends, recommend products or build a deep understanding of specific client needs. It is also more challenging to design a profitable service and coverage model. The consequence can be lower levels of client penetration and a mismatch between revenues and the associated service costs. This is a recipe for unprofitable

relationships and the inefficient deployment of scarce skilled resource.

There are many different models for effective client segmentation. For institutional asset managers it is common to see reference to the broader sector (e.g. financial institution, government etc.) and the size and type of mandate. Retail managers may typically consider wealth bands (often derived from invested assets), channel and tax wrapper.

In addition to segmentation by client profile, many asset managers add an overlay based on perceived importance such as Tier 1, 2, 3 or Platinum, Gold and Silver. For such segmentation or tiering to be effective, a transparent understanding of client profitability is key. However, despite considerable effort in recent years, achieving true visibility into the profitability of relationships or the cost of servicing at a mandate or portfolio level continues to be a challenge for most. We expect this to be an area of continued scrutiny as asset managers increase their focus on value as opposed to focusing solely on AuM and revenues. If the pressure on fees continues, as most expect, the industry will eventually crack the challenges surrounding the measurement of client profitability.

Client segmentation should help determine the frequency and nature of

both interactions and personnel allocation based on value and opportunity. Perhaps surprisingly many managers still do not deploy dedicated business development and client servicing personnel to higher value or higher potential clients.

Tracking and reporting of client contacts also needs to improve to provide greater visibility at both a client and portfolio level and support the transition to a relationship-based rather than transactional sales model. CRM should play an important role in delivering increased visibility and insight, but a change in behavior is required to optimize the benefits. The issues we have seen for so long – discretionary usage, inconsistency of inputs, accuracy and limited ongoing maintenance – are limiting the value and must be overcome.

"With client expectations increasing, coverage models need to be more incisive and add more value."

Head of Distribution, US Asset Manager

Key insights

For many asset managers, client segmentation and coverage has changed little in twenty years and is often the legacy of historical positions and approaches. Evolving client needs means that this now needs to be addressed.

Better quality data is required to inform and shape segmental strategies. Interview feedback suggests that best practice distribution models will require asset managers to:

- Segment clients by type in order to develop specific expertise, which is essential to fully understand client needs and provide solutions.
- Segment clients on the basis of the current and potential value of the relationship and adapt their sales and coverage strategies accordingly to focus on value.
- Improve behavior to support CRM usage and provide increased visibility into client activity at both an individual client and portfolio level.

"The economics of tomorrow will require us to think end-to-end. Efficiency and effectiveness go hand-in-hand."

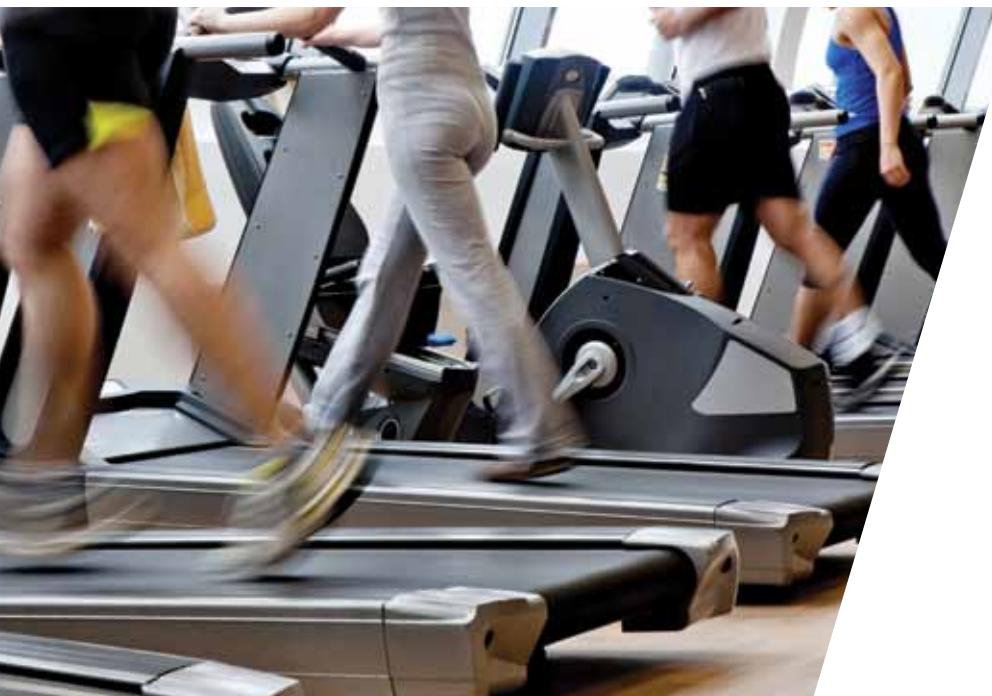
CEO, European Asset Manager

> DEEPER SKILLS AND CAPABILITIES ARE REQUIRED TO SUPPORT RICHER AND MORE RELEVANT CLIENT-CENTRIC DIALOGUES

A number of interview participants indicated they were placing increased focus on deepening the skills and capabilities within their distribution functions to increase sales effectiveness. With the move from product-push to more relationship-based distribution, existing capabilities will need to be refreshed and new skills developed to enable sales personnel to engage in client discussion. Specifically, skills in the areas of relationship building, structured selling and technical product support.

While many managers have focused on upskilling distribution over recent years, the key method has predominantly focused on the appointment of experienced hires and local sales, client segment or product specialists. For many organizations, training has been deprioritized due to the economic environment or has become largely ad-hoc and primarily focused on product, regulation and compliance.

Interviewees recognized that the training agenda needs to be strengthened and broadened to include sales and relationship skills. Several asset managers that have invested in skills development are experiencing an increase in win rates and positive net flows. One CEO said that they had achieved a material improvement in retention and new flows following the launch of their sales academy.



“There is often an inherent bias in many distribution functions with sales people comfortable selling particular products, or simply hot products, hence constraining a broader sales dialogue.”

Head of Distribution, US Asset Manager



In the experience of KPMG member firms, a balanced programme should include:

- **Relationship management and sales:**

Relationship development skills and the ability to listen to, interpret and shape client requirements is crucial as client needs become more diverse and solutions play a more important part of long-term client coverage. A number of asset managers we spoke to have introduced formal and informal client networks to share insights and knowledge.

• **Technical and product specific:** Many asset managers are using the product specialist role to help build more technical and product specific knowledge within distribution. As clients' portfolios become more complex, so too do the capabilities required within distribution functions to explain the asset manager's approach and offerings. Qualifications are gaining in importance. Some asset managers have

also established regular training sessions where portfolio managers and their respective product specialists train the salesforce and strengthen technical knowledge.

- **Regulation and compliance knowledge:**

The ongoing changes to the regulatory landscape continue to necessitate investment in training to ensure distribution teams are able to advise clients appropriately.

- **Management and leadership:** This is another area that has typically had minimal investment. As individuals progress through the distribution function it is important to provide them with the skills needed to enable them to take on additional internal responsibilities. As margin compression continues, several CEOs commented that they see general management becoming more important to focus on driving efficiency and effectiveness.

A number of the CEOs interviewed anticipated that their annual learning and development budgets would need to increase quite significantly (e.g. 20-30%) over the next 2-3 years.

The interviews also suggested that training is most effective when it is formalized as part of an individual's objectives and also incentivized accordingly.

“Global financial institutions are tired of sales discussions. They want more market and economic discussions and to hear our point of view.”

CEO, European Asset Manager



In addition to training, an increasing number of managers are looking to improve their use of internal and external market data to better direct sales and distribution effort and enhance the quality of client conversations. The ambition is to use this information to identify trends across different client segments, predict what products and services a client may find of interest based on the buying patterns and profiles of similar clients and provide sales teams with market insights to shape the client dialogue.

One US manager is in the late stages of deploying a personalized datastream strategy to its salesforce via tablet device. Market share, flows, economic data, news, competitor insights, portfolio manager viewpoints and campaign information will be pushed into the sales channel on a daily basis.

In the experience of KPMG member firms, the initial focus of data strategies has been on more effectively collating and harnessing internal data from what is typically a disparate array of largely

unconnected sources and systems. This can create considerable technical and operational challenges. Many managers are bringing in specialists in big data envisioning tools and predictive analysis.

In the medium and longer term, we expect data strategies to be broadened to incorporate sophisticated tools as part of cloud and digital strategies.

“The skill set of sales is changing. The primary role of the sales function should be to have a dialogue with clients, understand their needs and then act as a catalyst and facilitator to bring the capabilities within the business together to develop and a deeper, longer-term relationship.”

CEO, US Asset Manager

Key insights

Upskilling initiatives often focus on appointing experienced hires, with training viewed as a lower priority. The research suggests that to implement a best practice and more relationship-driven distribution model, asset managers would benefit from:

- Complementing existing regulatory updates and product and technical training for the distribution team with a broader programme encompassing softer skills such as relationship management, sales and leadership.
- Including training as part of individuals' objectives and incentivizing this accordingly.
- Enhancing data strategies to harness client and market intelligence, as well as the manager's own viewpoints, that the distribution teams can use to help drive and shape client engagement.

"Sales are now much more relationship-driven on the back of an intellectually rich ideas based discussion."

CEO, European Asset Manager



> THE BROADER OPERATING MODEL MUST BE ALIGNED TO SUPPORT CHANGE

"One of the biggest challenges facing our business is coping with the complexity that is hitting us from multiple directions."

CEO, European Asset Manager

While structure, client segmentation, coverage models and skills development are critical elements of evolving distribution models, in KPMG firms' experience, the probability of successful change is increased if adjustments to the operating model are also made. Our research indicates that the following components are critical for success:

• Processes: Focus is often placed on designing the winning distribution strategy. However, change is unlikely to deliver the intended value unless associated business processes are also reviewed and redesigned where required. This will ensure that they not only support the intended change but also improve efficiency, effectiveness and operational controls. We are seeing an increasing number of asset managers redesigning processes which transcend the distribution function such as RFP responses, client on-boarding and new product development.

• Operations and IT: Industry best practice distribution models tend to be supported by efficient, flexible and cost-effective operations and IT infrastructure. Key areas of focus include:

- Reducing operational complexity and better connecting what are often a myriad of IT platforms to reduce costs and enable the effective delivery of solutions.
- Better harnessing and leveraging data to support distribution and enhance the quality of client dialogue, including boosting the usefulness of CRM.
- Investing in infrastructure to enable clients to self-service and pull down reports and other information.
- Balancing the need for a global infrastructure and platform with the local needs and requirements of different geographies, specific client groups and market practice.
- Ensuring appropriate connectivity between operational functions, distribution and portfolio management teams.

• Governance: Regulatory compliance and reporting is often at the heart of, and can dominate, many governance frameworks. It provides the boundaries and context within which the business is managed and sets out responsibilities and accountabilities. Governance should be reviewed and revised to support any changes in the distribution structure,

provide clarity on how and where decisions are made and support closer cross-functional collaboration. In addition to formal structures, a significant number of interviewees highlighted the importance of embedding a proactive and collegiate culture underpinned by informal networks to drive teamwork and increase information flows.

• Measures and incentives: Typically people behave in the way in which they are incentivized and measured. As distribution evolves and the focus shifts from assets towards revenues, margin and ultimately profitable 'one firm' behaviors, incentives will need to be reviewed and revised to ensure alignment. Many interviewees expect a trend away from rewarding short term flows towards longer term profitability, share of wallet, cross-functional collaboration and client satisfaction. Incentives should also be used to focus attention on the business's key priorities. Such changes will require careful structuring and management. To support this transition, key performance indicators and performance dashboards used within distribution should align to the organizational goals, measures and revised incentive structure.

Key insights

Many asset managers are finding their operating model no longer adequately supports the distribution models. The research suggests that best practice distribution models will require asset managers to:

- Enhance the operating model to support improvements to the distribution model (e.g. a global distribution structure would need IT infrastructure to facilitate efficient cross-border working, such as global file-sharing capability).
- Pursue initiatives to improve the efficiency of the operational platform and ensure that the overall client service model can be delivered in a profitable and timely manner.
- Establish governance frameworks to not only meet regulatory requirements, but to provide the formal structures to support changes to the distribution model (e.g. to promote cross-functional collaboration and information flows).
- Ensure their reward structure encourages behavior required to embed a more client-centric ethos and deliver on both the distribution plan and the business's overall strategy. Incentive structures have shifted largely from rewarding asset accumulation to rewarding profitable revenues. They need to continue to push towards rewarding the building and commercializing of client relationships.

"It is important that operations are part of the process rather than simply kept informed. They need to be able to anticipate where the company is going and keep up to date with changing customer requirements."

CEO, European Asset Manager

"Incentives should be used as a prioritization tool, not just a reward mechanism."

Head of Distribution, US Asset Manager



> CONCLUSION

The need to forge stronger and deeper client relationships will drive the evolution of distribution models



The CEOs and Heads of Distribution who were interviewed by KPMG firms' professionals, support our belief that distribution will be a key competitive battleground for asset managers and that models must evolve in response to changes in client requirements and market conditions. Models must also become more efficient with a greater focus on profitability.

It is clear from these interviews that the desire to create closer, deeper client relationships will help to underpin a more client-centric model. It is also clear from our research that many managers are actively seeking to improve the level of collaboration and coordination across distribution, portfolio management and operations.

“The asset management industry is one of the few that will truly benefit from the macro trends now upon us – an ageing population, increasing wealth and higher expectations for retirement.”

**Global Head of Advisory Services,
US Asset Manager**

CEO and Head of Distribution checklist:

Ten key questions to help you assess your distribution strategy

Given the central role distribution is likely to play in winning asset managers' strategies, readers are encouraged to reflect on their respective organization's current capabilities, structure and model and consider whether they are sufficiently robust and compelling to outperform rivals in the current and medium term environment.

"We have a unique set of skills and a clear view of what role we want to play and what value we can add. When we looked at distribution we knew we had to make improvements but we also had to design a model which worked for us rather than look to follow others."

Head of Retail, ASPAC Asset Manager

The following checklist is designed to help this process:

- 1** Is your distribution function structured most effectively to optimize client proximity, leverage internal capabilities to ensure maximum relevance and position the business as effectively as possible to capture new flows?
- 2** How does the structure balance the need for standardization with the need for flexibility and agility, whether that be global vs. local or one client type vs. another client type?
- 3** Are roles and responsibilities across distribution, portfolio management and operations clear and are all functions working effectively together to deliver a client-centric model?
- 4** Are relationships with clients and targets managed, developed and tracked in a coordinated way?
- 5** Is your distribution model tailored to specific client segments? Are you able to monitor client profitability and if so, does this drive client segmentation and service models?
- 6** What training is mandatory for distribution professionals? Would they benefit from a broader training programme covering sales and relationship building skills, regulatory compliance and leadership development?
- 7** Is the business effectively leveraging internal and external data and using it to shape and inform client dialogue?
- 8** Do core business processes, infrastructure and technology support your distribution model? Are there any processes which would benefit from review / redesign to improve efficiency and / or the client experience?
- 9** Is governance and organizational structure facilitating or stifling cross-functional collaboration? Does it support the changes being made to the distribution model?
- 10** Are measures and incentives aligned to the key drivers of value? Do they reward long-term relationship building, client-centricity, profitability and collaboration?

About KPMG's Global Investment Management practice

KPMG's Global Investment Management practice consists of 3,500 professionals working in KPMG member firms in 150 countries providing Audit, Tax and Advisory services to clients across the industry.

Being one of the largest networks of asset management specialists we are able to offer advice to asset managers based on in-depth industry knowledge and an intimate understanding of our clients' business activities and strategic goals.

Our specialist Advisory practice provides objective advice to CEOs and management teams on complex and critical issues around strategy, transactions, restructuring, performance, technology, risk and compliance.

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