

Distribution 2.0

How technology will redefine relationships with asset management clients

Many asset management firms suffer from obsolete distribution functions: while distribution headcount has increased 50% on average since 2012, distribution officers are half as efficient as they were in terms of profitability across retail and institutional client segments. Many distribution organizations have failed to keep up with:

- Powerful social and operating environment trends that have reshaped buyer needs
- Client demands for custom solutions, advice-driven relationships, and simplicity

Many asset managers think clients are more satisfied than they actually are: **buyers score service quality as much as 14% lower than most asset managers perceive**, partially because many investment firms have taken an **incremental approach to upgrading distribution functions**, creating suboptimal outcomes.

To improve client experience, asset managers must place technology at the center of distribution strategy: **34% of distribution leaders label technology investments as their number-one priority**.

Worldwide, asset managers spent an estimated \$2.2 billion on distribution-related technology in 2017, representing a median allocation of **6.5% of distribution costs**.

- Firms with more than \$500 billion under management spent \$50 million or more
- Firms between \$250 billion and \$500 billion in AUM spent \$30 million or more
- Smaller firms spent between \$5 million and \$10 million, although some invested significantly more
- The bottom third of spenders typically allocated \$1 million or less

Above-average investments in distribution technology tend to pay off for asset management firms:

- Organic growth rates exceed 2% a year, while net flows plummet among weaker spenders
- Gross sales per salesperson rise as much as 28%
- Sales via reverse inquiry rise 36%

Successful firms will invest in three layers of distribution technology:

- **Data**, organized in an **integrated repository** that centralizes client data from disparate sources
- **A client analytics engine** that helps uncover client needs and preferences
- **Client experience applications** that deliver mass-customized services and real-time information

Three enterprise-wide initiatives, all highly reliant on human capital, **help upgrade distribution organizations around new technologies:**

- **A new distribution talent model**, more tech-savvy and better organized against client needs
- **An action-oriented mindset** built on quick wins, rapid prototyping and agile processes
- **A change management program** with dedicated leadership that sequences investments

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Introduction

The rapid innovation and progress of technology, particularly in the last decade, has transformed the distribution of goods and services fundamentally. In many industries, data, analytics and digital applications have removed intermediaries, compressed value chains, and reduced costs. Unlike previous industrial revolutions, however, this wave of technological change also has permitted more personalized interaction with individual consumers, as well as emphasized the experience, not just the outcome, of a purchase—transforming transactions into relationships.

This white paper explores how technology will reshape distribution throughout the asset management industry worldwide. Asset management has been slower than other financial services industries to embrace new technologies. Its high profit margins have precluded the need to innovate labor-intensive models; its focus on sales and growth has de-emphasized client service and retention; and its culture has reinforced the belief that strong investment performance would trump all distribution inefficiencies, despite increasingly prevalent contrary data.

Winning asset managers of tomorrow, however, will embrace distribution technology—partly to deliver efficiency, but mostly to deliver a better client experience at scale, helping them acquire and retain more clients. Our white paper has four primary conclusions:

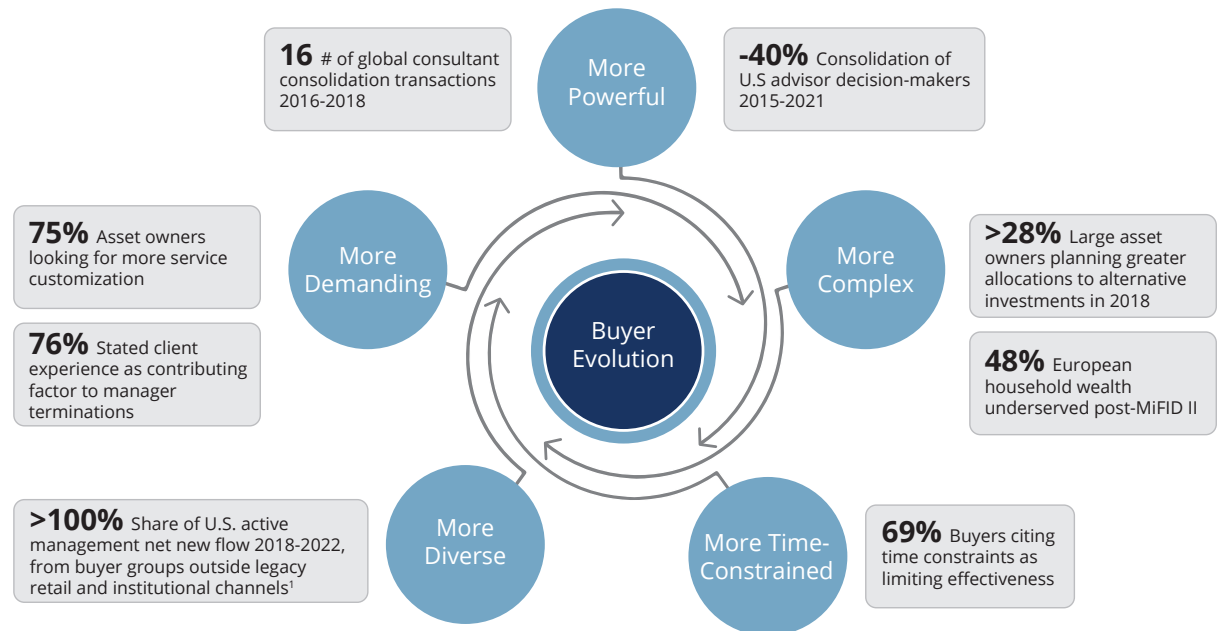
- **Buyers in asset management have changed dramatically:** powerful social and operating environment trends are reshaping retail and institutional clients, who now seek more continuous, less transactional, relationships with investment firms.
- **Most asset management firms have failed to keep up, making only incremental changes to address new buyer needs:** although asset management firms have added an estimated 50% to sales-oriented and marketing headcount for the five years ending 2017, the average efficiency of a sales professional, measured in terms of profitability, of each new hire has plunged by more than half.
- Providing the client experience that improves client acquisition and retention requires technology. **Asset management firms that place technology**—measured by above-average investments in data, analytics, and client experience applications—**at the center of distribution strategy can enjoy dramatic improvements in distribution efficiency** across multiple metrics.
- **But deploying the necessary technology only works in concert with enterprise-wide initiatives designed to transform the entire distribution organization,** including a new distribution talent model, processes that support more rapid innovation and deployment, and a change management program that builds confidence and attracts clients.

Casey Quirk has an extensive research network driven by the Casey Quirk Knowledge Center's primary research on an ongoing basis with distribution leaders, global investors, and asset management firms. Data cited in this paper and its exhibits, unless otherwise indicated, comes from a number of Casey Quirk research initiatives, including our annual Distribution Benchmarking initiatives, conducted in concert with Institutional Investor, a unit of Euromoney plc, across the United States and Europe; our retail intermediary survey work, conducted with the Money Management Institute in the United States; and our Performance Intelligence financial benchmarking survey of asset managers, jointly conducted across the United States and Europe with compensation consultants at McLagan, a unit of Aon.

New buyer needs

Both retail and institutional buyers of asset management products and services worldwide have evolved dramatically since the 2008-2009 global financial crisis.

Exhibit 1: Key Metrics Defining Change Among Asset Management Buyers, 2018



Notes: ¹Includes ultra-high-net-worth/family office, outsourced CIO, large defined contribution plans, centralized investment organizations within third party distributors, and subadvisory mandates.

Sources: Casey Quirk/McLagan Performance Intelligence, Casey Quirk Distribution Benchmarking, Casey Quirk Retail Intermediary Study, Casey Quirk analysis

Clients of asset management firms are now:

- **More complex.** Retail and institutional buyers have become more focused on outcomes than benchmarks, rewarding managers more for the cash flows they can create rather than less certain asset appreciation. Portfolios have become more complicated to build and explain as a result.
- **More powerful.** The number of decision-makers reviewing and selecting asset managers for portfolios is consolidating in both the institutional world—where investment consultants are merging rapidly—and among individual investors, where decisions among financial advisors increasingly lie in the hands of fewer, larger centralized gatekeepers.
- **More demanding.** As the overall standard for digital delivery of products and services rises across all industries—exemplified by real-time information, rapid delivery, seamless interactions, and customized fulfillment—asset management has fallen behind.

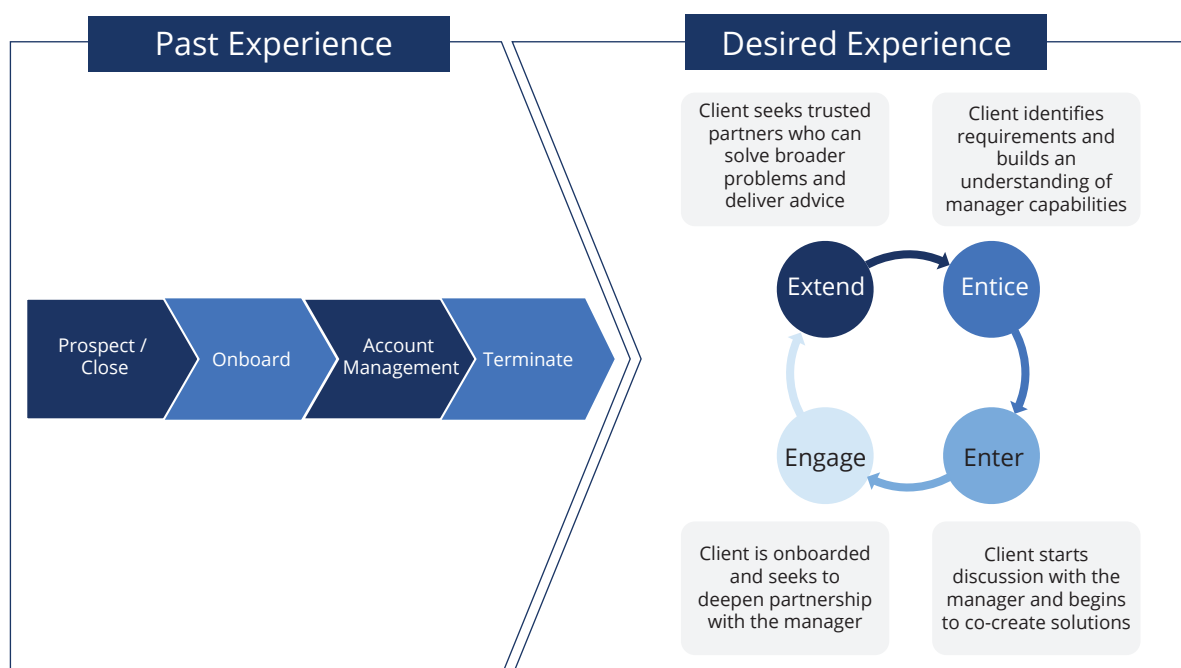
- **More time-constrained.** Both asset owners and large intermediaries find themselves needing to handle more internal functions with fewer staff, and they have less bandwidth available for not only building portfolios and selecting asset managers, but also simply onboarding and monitoring investment firms they have already chosen.
- Finally, **more diverse.** While the industry continues to view clients as relatively faceless retail and institutional “channels,” most buyers view themselves as a segment of one that requires a personalized approach. Increasingly, similarities among buyers stem more from their specific needs and objectives as investors—implying that the industry relies on a client segmentation framework that may not reflect true client preferences.

All of these changes in buyer needs have reshaped the engagement model that clients—again, retail and institutional—seek from their asset managers. The industry’s traditional engagement model has been transactional and linear in nature:

- Interactions are driven by individuals, but built on standardized engagement models, without much customization or flexibility
- Resources and processes overweight sales functions vis-a-vis client service or retention
- Discussions and interactions center on packaged products
- Post-transaction client communication tends to be reactive

Interviews with clients—asset owners, gatekeepers with large intermediaries, and even individual investors—reveal that buyers want something different from asset managers. Clients view their interactions with asset managers as more of a journey: a continuous, accretive, and often two-way relationship.

Exhibit 2: The Evolving Asset Management Client Experience



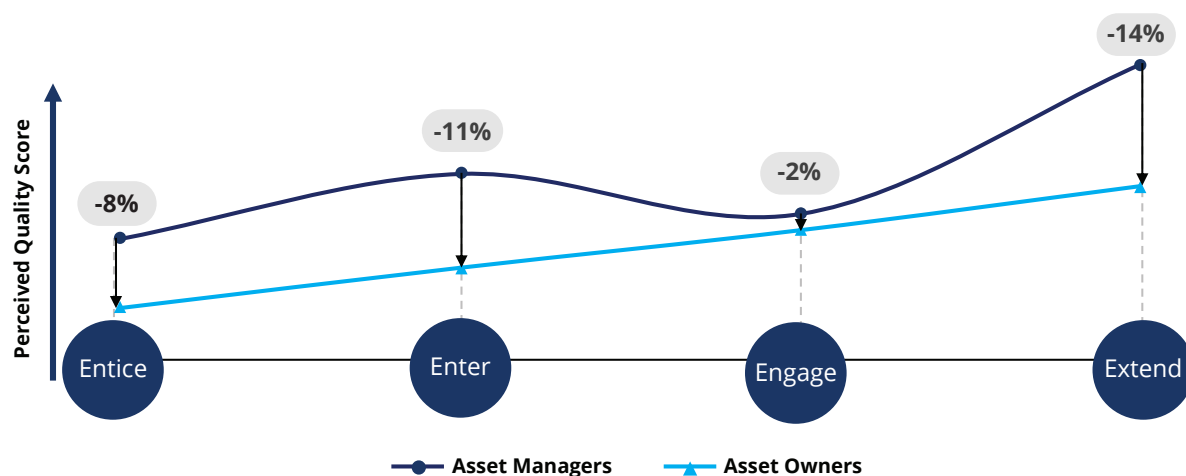
Sources: Casey Quirk, Dublin

Clients describe their optimal engagement with asset managers in many ways, but their feedback tends to focus on four areas, which can be categorized as “four E’s”:

- **Entice**, where asset managers foster interest among clients by engaging them with tailored content, messaging, advertisements, events and similar outreach. Prospective clients receive, through multiple media, personalized content—often in the form of investment-oriented thought leadership—that reflects their top-of-mind portfolio objectives and concerns.
- **Enter**, a phase where buyers expect detailed discussions about their specific needs, and expect asset managers to collaborate on potential, more customized, solutions. Clients seek high levels of engagement from the asset manager’s specialists, who can help articulate the best way to meet longer-term portfolio objectives using the recommended investment strategy.
- **Engage**, a phase that begins with onboarding, where clients seek a streamlined and increasingly automated process. Buyers expect ongoing service to remain personalized, usually through two key functions: customized reporting that answers client-specific questions, ideally through self-service portals; and enterprise value-added tools, such as risk management and portfolio optimization applications.
- Finally, **extend**, where technically proficient distribution professionals bring content and specialists to review the client’s needs and suggest specific investment capabilities or services (e.g., asset allocation, hedging overlays, liability management, and income strategies) that could further help clients meet their declared objectives. Absent from the depiction is the fifth “E”, exit, which focuses on gathering information about client departures.

To date, the asset management industry has attempted to offer some engagement capabilities within packaged products or relatively standardized offers often labelled “solutions.” But customers say they want a more service-oriented experience. Consequently, the gap in expectations between buyers and sellers in asset management has widened considerably. On average, clients rate the service level as much as 14% lower than most asset managers perceive, with the greatest expectation gaps in the Enter and Extend phases, where clients expect technical, personalized interactions that many asset managers apparently do not deliver.

Exhibit 3: Service Level Perceptions: Asset Managers versus Buyers, 2018

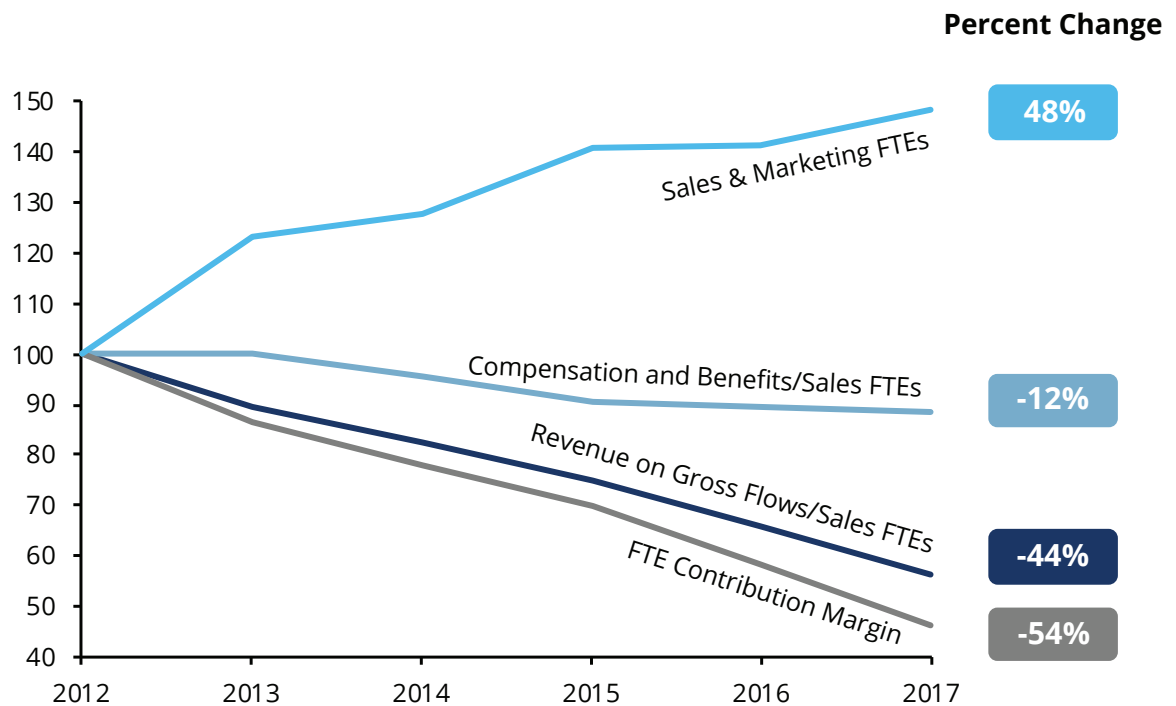


Source: Casey Quirk Distribution Benchmarking

Deteriorating distribution economics

Most leaders of distribution organizations are aware of the growing expectations gap, but so far many have addressed it by hiring more salespeople. Such strategies often fail to pay off. The industry's estimated sales and marketing-related headcount, as measured by full-time equivalents, ballooned 50% between 2012 and 2017. Yet on average, dedicated sales professionals generated slightly more than half as much revenue—and less than half as much profit—per employee between 2012 and 2017.






Exhibit 4: Asset Management Sales Economics, 2012-2017 (median change indexed to 100)



Source: Casey Quirk/McLagan Performance Intelligence, Casey Quirk analysis

Asset managers cannot provide customization and service-oriented capabilities using only salespeople; delivering them effectively requires leveraging technology. Many asset managers argue they have “digitized” distribution. But their improvements in most cases have been incremental, and failed to address several symptoms of distribution inefficiency:

Exhibit 5: Systemic Sources of Distribution Inefficiency, 2018

	No single view of client across enterprise, poor data quality	Only 13% of asset managers reach their “target state” CRM
	Limited ability to turn data into insights	Only 17% of asset managers successfully enhance distribution through use of data and analytics
	Poor user experience and low adoption	Only 7% of asset managers report adding value to their clients through distribution transformation
	Disconnected tools across sales, service and marketing, resulting in disjointed efforts	Only 18% of asset managers report having technology functions adequately servicing distribution
	Challenged execution: missed timelines and budgets; misaligned management teams	About 76% of distribution leaders label “sales productivity” a “top of mind issue”

Sources: Casey Quirk Distribution Benchmarking, Casey Quirk Analysis

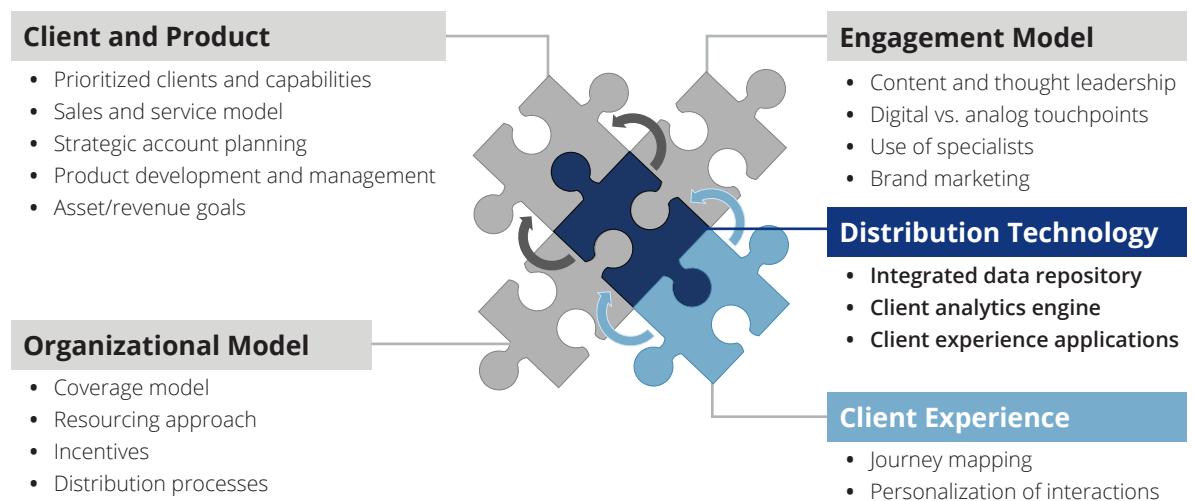
- **No single view of a client** exists, in many cases, because of fragmented client data—collected at varying levels of detail, under differing hygiene conditions, and housed in several places across an enterprise.
- **Inability to turn data into insights**, as asset managers lack sufficient definition around desired analytics, the necessary data scientists with relevant skill sets, and quality or complete data sets.
- **Disconnected tools** across sales, service and marketing, as different, siloed groups within organizations add applications without considering how to coordinate such tools together across the length of the client journey.
- **Poor customer experience**, a general complaint that can crystallize in many forms: inefficient onboarding with disjointed hand-offs among multiple participants, a lack of customized approach, outdated client reporting, or a lack of service quality. **Execution challenges** compound these problems.

These suboptimal outcomes likely all stem from a single root cause. Most asset managers have viewed technology only as an extension of their existing distribution strategy. Consequently, distribution technology has received limited management attention, talent and budget. To be successful, asset managers need to place distribution technology at the very heart of their strategy. This will lead most asset managers to rethink their distribution function altogether—with enough change to label the new structure Distribution 2.0.

Distribution 2.0 technology

Asset managers still need functions around client and product, an organizational model that brings together people and processes, and an engagement model that serves as a base framework for communicating with prospects and clients. But as buyers demand more personalized service and more consistent communication with asset managers—a sum of interactions that often gets described as client experience—legacy functions are insufficient. Distribution technology links existing sales and service capabilities with client needs, using automation and processing capabilities that allow firms to deliver client experience at scale across retail and institutional clients.

Exhibit 6: Distribution 2.0 Strategy Requirements

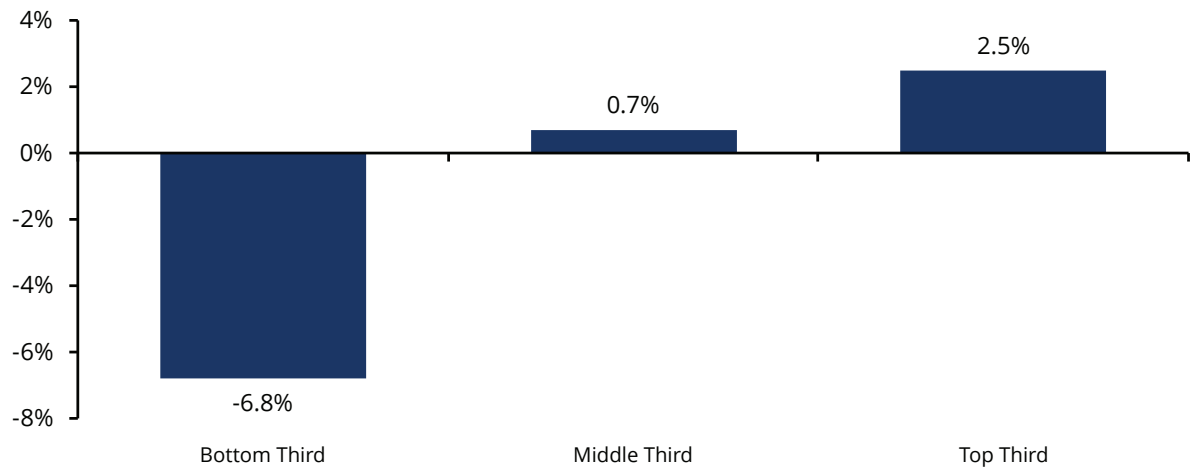


Source: Casey Quirk

Estimates based on Casey Quirk studies indicate that worldwide, asset managers spent around \$2.2 billion on distribution-related data, analytics, and applications in 2017, with the median firm allocating 6.5% of its budget to distribution technology. Asset managers that have invested heavily in distribution-related technology already are seeing clear benefits. During the three years ending 2017, those asset managers who ranked in the top third of peers for spending on distribution technology grew twice as fast as the industry overall in terms of net new flow, and eclipsed rivals in the bottom third, most of whom shrank.

An asset manager's size and distribution technology budget are only loosely correlated, with some smaller firms ranking among the more aggressive spenders. In general, 2017 budgets ranged from \$5 million to \$10 million among firms with less than \$250 billion in assets, while businesses managing more than \$500 billion allocated as much as \$50 million or more. Those firms ranking in the bottom third usually spent less than \$1 million, by comparison.

Exhibit 7: Net New Flow as % of AUM by Estimated Distribution Technology Spend, 2014-2017



Data, Analytics & Distribution Technology Spend

Notes: Includes all IT or technology expenses (personnel, systems and vendor) relating to sales, marketing or distribution. Examples include CRM systems and software, investor data, investor data management, content creation and curation, social media creation and distribution, and platform spend for client-facing technologies. Excludes firms with AUM < \$75 billion.

Sources: Casey Quirk/McLagan Performance Intelligence, Casey Quirk Distribution Benchmarking, Casey Quirk analysis

Additionally, asset managers that report leveraging data and analytics as a primary input to their distribution efforts benefit from significantly longer institutional client tenure than those that do not.

Exhibit 8: Institutional Client Tenure by Technology Usage, 2018

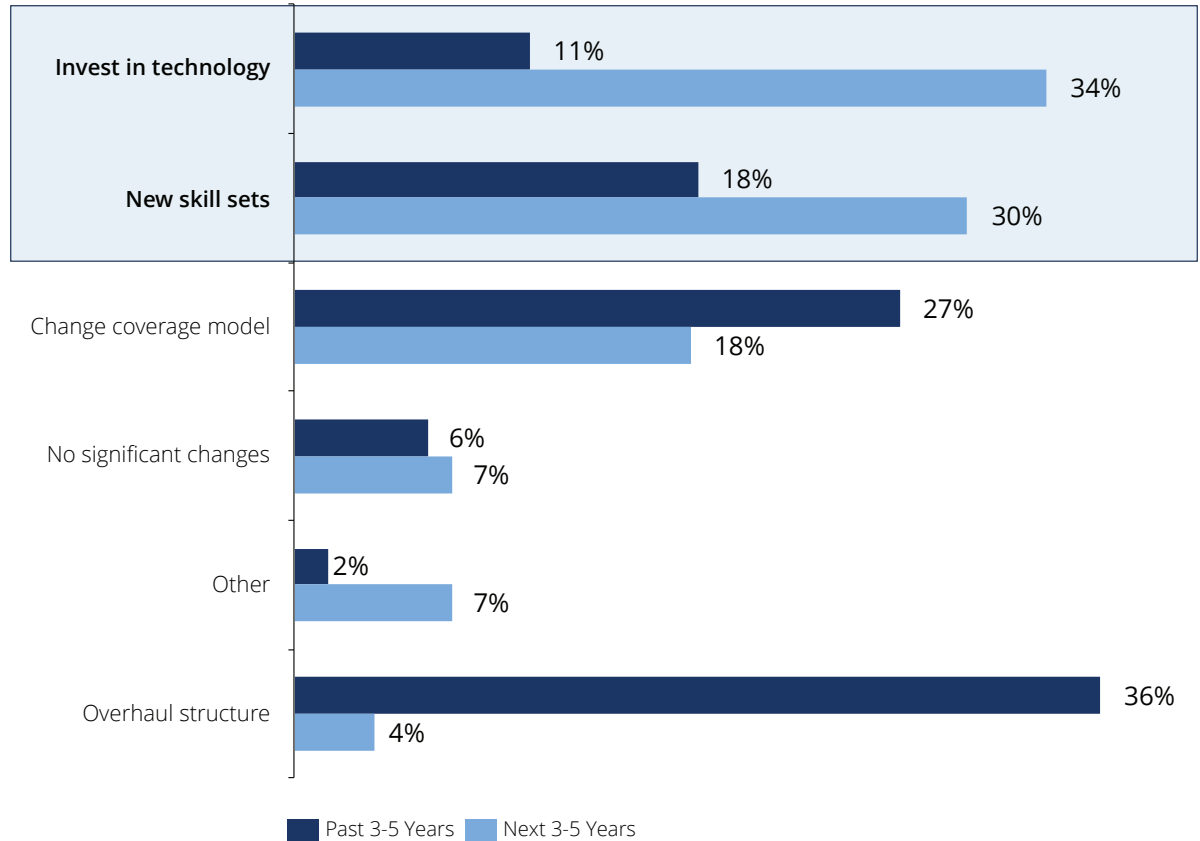


Note: reflects self-reported use of data and analytics in distribution.

Source: Casey Quirk Distribution Benchmarking

Most distribution leaders realize they need to invest further in technology to support a wider number of more customized and complicated relationships with buyers and intermediaries. Nearly two-thirds of distribution leaders labeled technology or new talent—usually referring to professionals more comfortable with using technology in distribution—as a number-one management priority for the next three to five years.

Exhibit 9: Most Significant Changes Identified by Distribution Leaders, 2018

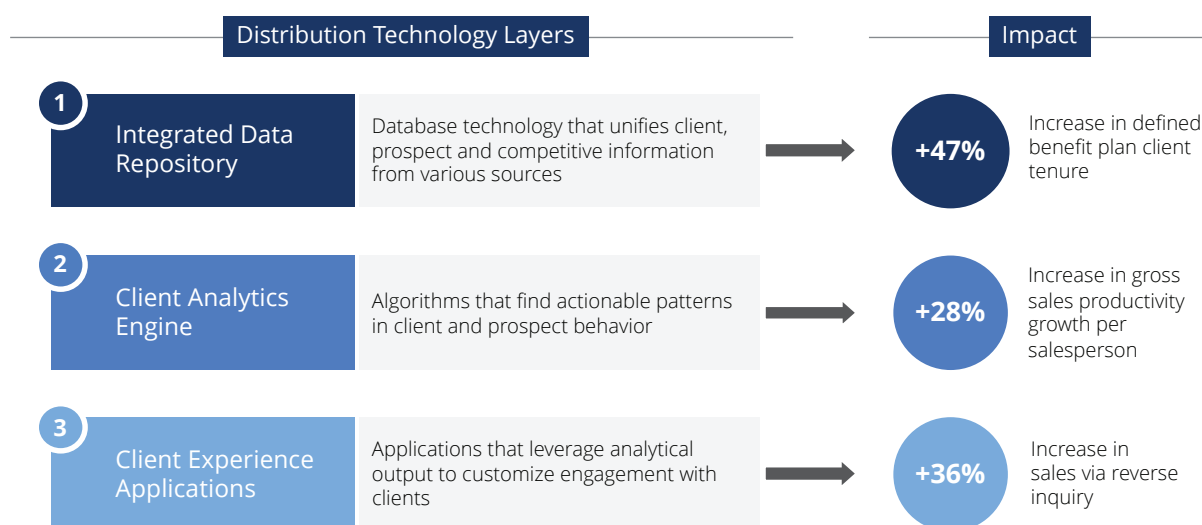


Source: Casey Quirk Distribution Benchmarking

Distribution technology can mean many things, but effectively deployed, it usually consists of three critical layers:

- **Client data**, best held in an **integrated data repository** that unifies client, prospect, and competitive information from proprietary and third-party sources.
- **A client analytics engine**: algorithms that process large sets of data in order to generate insights regarding client and prospect behavior. Outputs from the analytics engine allow distribution professionals to segment, analyze and mine client data, finding new prospects and expanding existing relationships.
- Finally, **client experience applications** that allow distribution professionals to use analytics to improve customer experience across multiple functions. Examples include personalizing web and email interactions; coordinating the action of marketing, sales, and service teams; streamlining or automating due diligence questionnaires, requests for proposal, and onboarding; delivering insight through reports; and collecting client interactions and feedback.

Exhibit 10: The Three Layers of Distribution 2.0 Technology



Sources: Casey Quirk Distribution Benchmarking, Casey Quirk/McLagan Performance Intelligence, Casey Quirk analysis

Few firms have built any of the three layers completely, let alone finished all three seamlessly. According to recent metrics from the Casey Quirk Distribution Benchmarking survey:

- Virtually no asset managers have achieved their target state in terms of an integrated data repository
- Less than 10% of firms have achieved target state in leveraging technology capabilities in areas like client relationship management (CRM) and client reporting
- Only 18% of asset managers believe their technology organization has the full set of skills needed to support their distribution technology needs.

While specific applications and technologies vary from firm to firm, each layer of distribution technology has characteristics common to most asset managers building them.

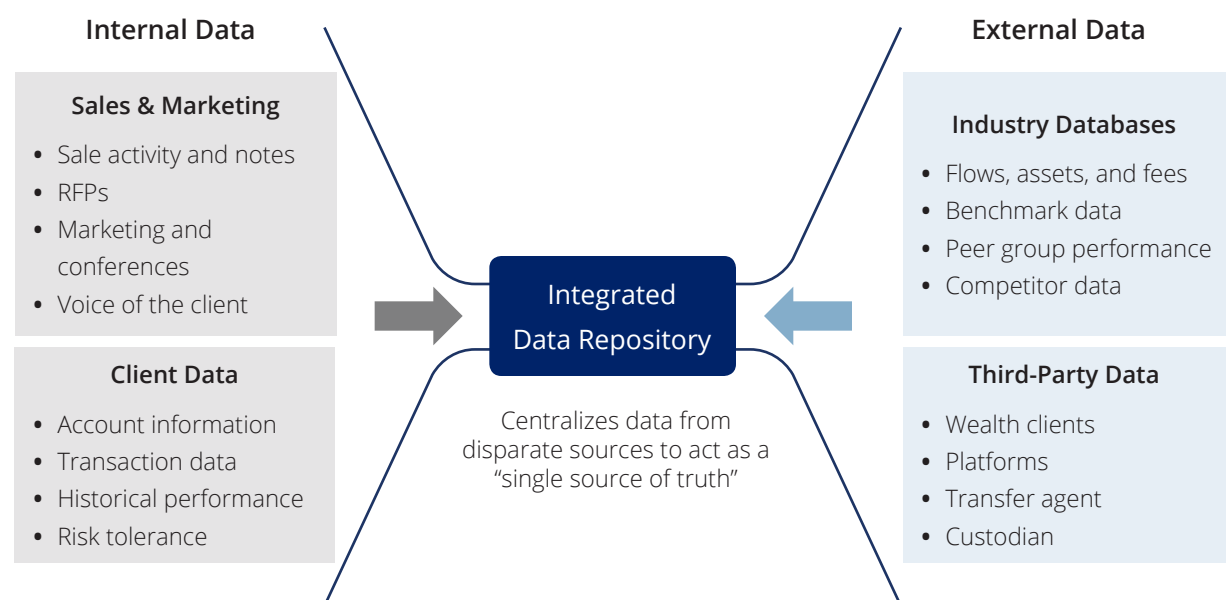
1. Integrated data repository

An integrated data repository is the data architecture that centralizes data about clients, competitors, and the operating environment to create a single source of information for the entire enterprise. Most asset managers suffer from fragmented data about buyers, resulting in inefficient prospecting (i.e., spending time on buyers that likely will not value the asset manager's strategies and services) and poor-quality interactions with current clients—primarily because different service officers have different information, leading to inconsistent and sometimes duplicative coverage of a client. This fragmented view means asset managers rarely see how unorganized they look to a buyer; conversely, the disorganization is all the client sees.

Asset managers usually need to work with multiple sets of distribution data, all of which they struggle to organize and reconcile:

- **Data from the client**, including account information, transaction history, performance and risk tolerance
- **Sales and marketing history data**, including calling activity, past RFPs, marketing and conference data, and feedback from past and present clients
- **Third-party data**, such as data packs from intermediaries and data feeds from custodians
- **Industry business intelligence databases** containing data from not only asset owners and intermediaries but also other asset managers, usually focused on descriptive client information, performance, assets and flows

Exhibit 11: Distribution 2.0 Technology Layer 1: The Integrated Data Repository



Sources: Casey Quirk

The integrated data repository often is a series of highly interlinked database management systems, not spreadsheets. Well-built repositories share some characteristics:

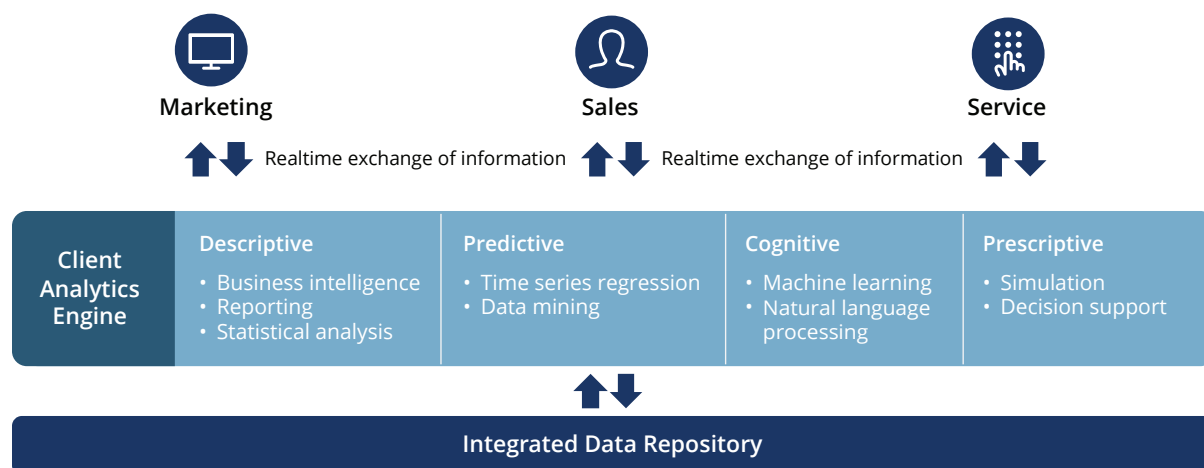
- They are **extensive**, including flow, asset, performance, touchpoint, and demographic data, connected by consistent and robust reference data and metadata.
- They are **flexible**, built on scalable server infrastructure with flexible connectivity to multiple applications and user groups.
- They are **well-governed**, with clear data stewardship and data strategy ownership.

2. Client analytics engine

While an integrated data repository provides a single source of truth, a client analytics engine links the applications and technology that allow distribution organizations to harness the centralized data effectively. The client analytics engine requires data scientists to develop algorithms and data mining applications that comb data for patterns and markers that match marketing, sales and relationship management objectives. Output from analytics engines support a variety of analyses, roughly grouped into at least four categories:

- **Descriptive:** profiling clients and activity within client segments based on business intelligence, internal reporting, and statistics.
- **Predictive:** identifying client attributes that represent high-probability prospecting targets, and then isolating the best next potential buyers to pursue – and capabilities to offer. Microsegmentation—using data mining to more narrowly identify high-probability prospects, usually through characteristics of buying behavior—is an increasingly common analytics set.
- **Cognitive:** leveraging machine learning (a form of artificial intelligence) to transform extensive, unstructured data into meaningful, human-like insights upon which a distribution professional can act.
- **Prescriptive:** suggesting a course of action to increase the likelihood of a given outcome, e.g., identifying trigger actions that convince a client to take a meeting or purchase a fund.

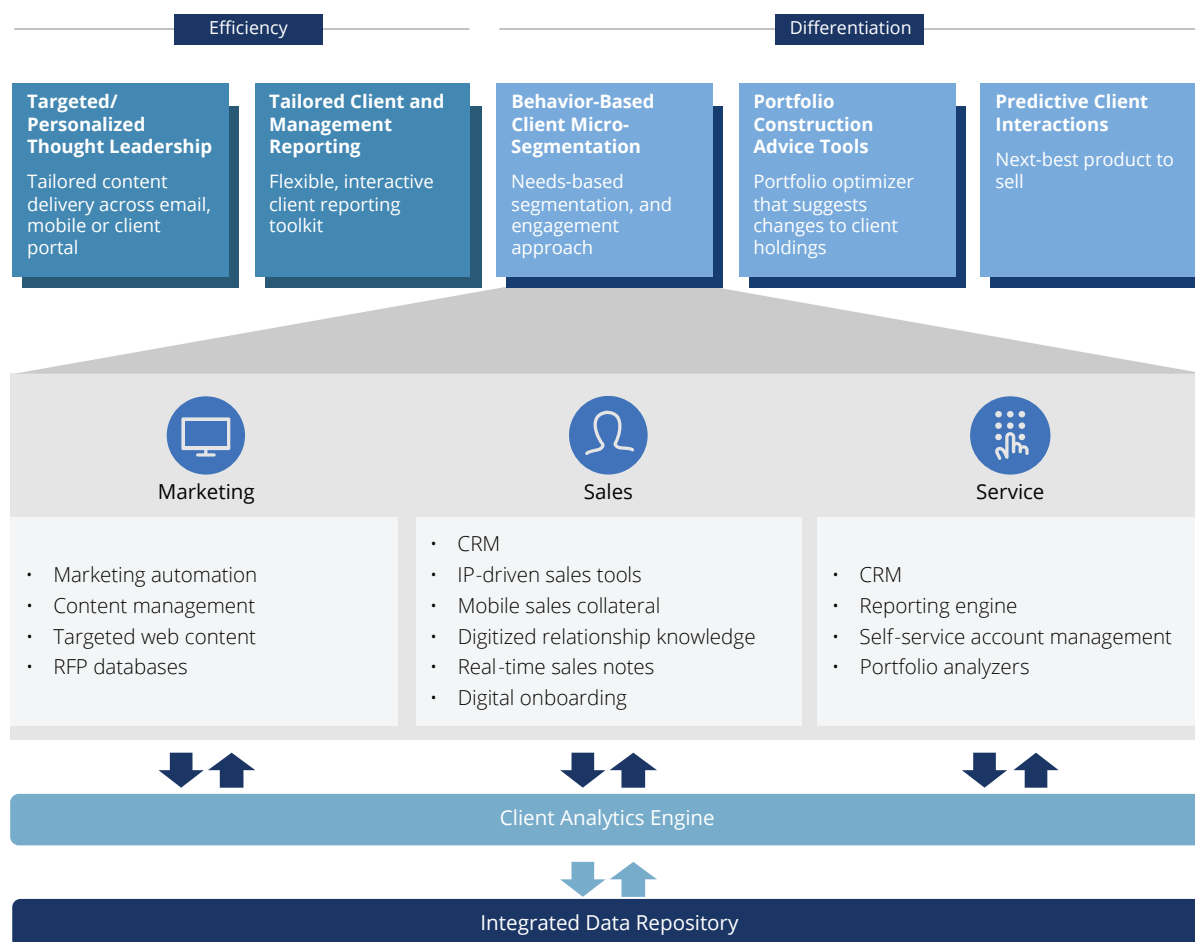
Exhibit 12: Distribution 2.0 Technology Layer 2: Client Analytics Engine



3. Client experience applications

The final layer of distribution technology consists of applications that leverage analytics to support more customized interactions with buyers, using real-time information to better coordinate marketing, sales, and service personnel. These applications vary the most from firm to firm: while they may share similar third-party base applications, their deployment, data visualization and use cases (i.e., the specific outputs they provide) should reflect an asset manager's specific comparative advantages.

Exhibit 13: Distribution 2.0 Technology Layer 3: Client Experience Applications



Source: Casey Quirk

Asset managers benefit in two ways from client experience applications:

- **Efficiency:** Many client experience applications can automate and streamline standard functions within distribution processes, removing errors, reducing headcount, and increasing flexibility. They can also direct effort away from clients and prospects where it is likely to be unproductive. Applications that assist with onboarding, reporting and content management generally fall into this category.
- **Competitive differentiation:** Client experience applications that help deliver investment-oriented content—arguably a core competitive advantage for an asset manager—can play a key role in differentiating an investment firm and helping it deliver more customized support to a relationship. Portfolio construction tools are a primary example.

Client experience applications span multiple distribution functions:

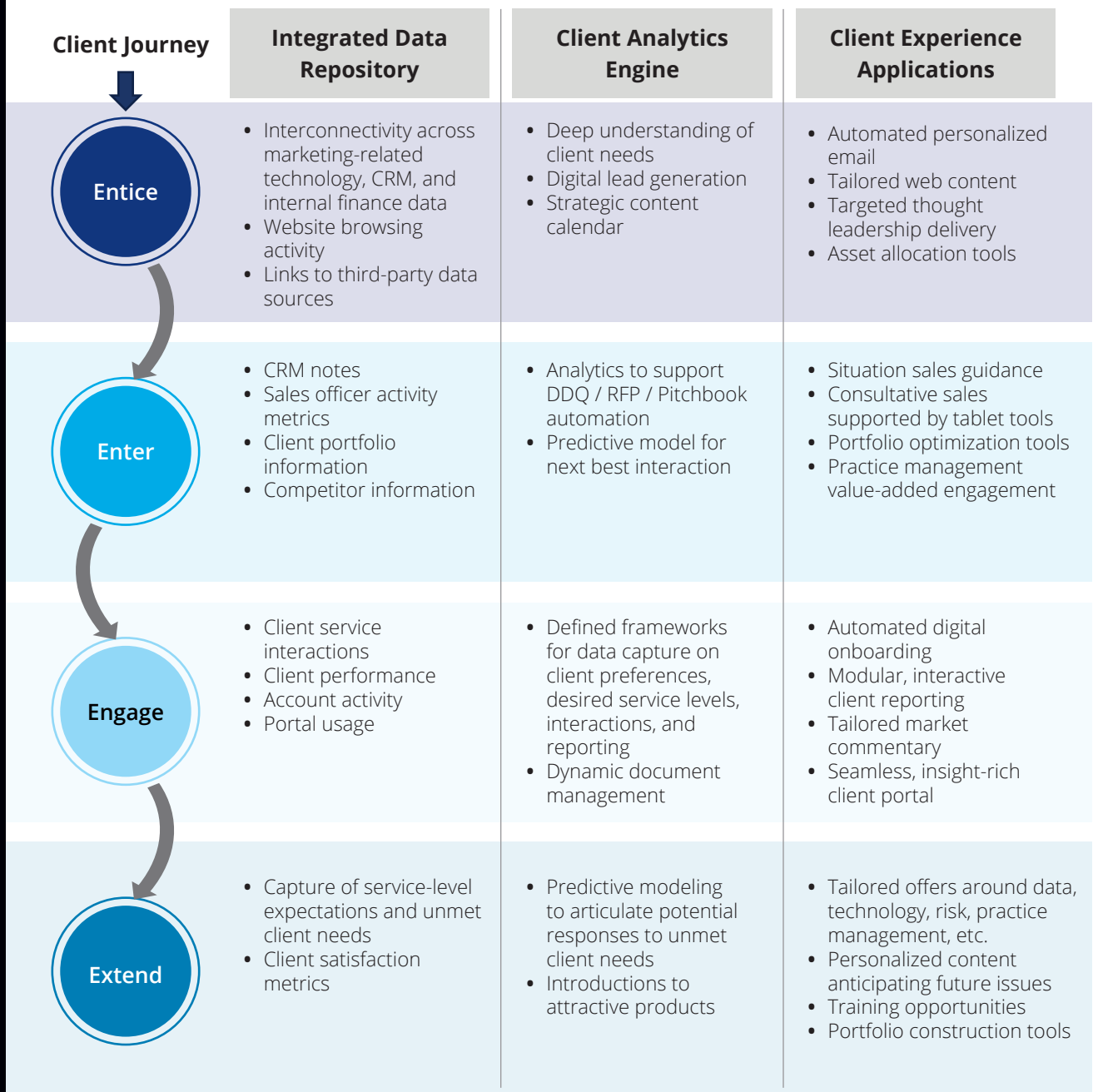
- **Marketing:** Client experience applications leverage insights to generate and nurture client interest. They include ad retargeting, content management, email marketing automation, and website optimization tools that better align thought leadership to buyer needs, particularly as clients further engage with various forms of content. This reduces the cost of client acquisition.
- **Sales:** Client experience applications help salespeople efficiently manage their sales process, capitalize on insight into client interests, and better support the technical, advice-heavy interactions that outcome-oriented buyers prefer. They include tools to automate the generation of RFP or DDQ responses, portfolio analytics tools to support “advice-oriented” interactions, and automation for elements of the onboarding process.
- **Service:** Client experience applications can augment relationships with existing clients, providing real-time account information and interactive digital client service tools, multiple channels including self-service portals. They also can take the form of investment-led value-added tools—providing risk management analysis or portfolio optimization, for example—that showcase a wider range of the asset manager’s intellectual property.

Importantly, a customer relationship management (CRM) platform can provide the necessary relationship management tools to track, manage, and support interactions across marketing, sales and service. This requires firms to view CRM as more than a contact tracking system. Instead, well-designed CRM systems can pull together analytics and applications, proactively creating a common view of prospects and clients, as well as supporting an integrated set of client interactions across the enterprise.

Deploying Distribution 2.0

Distribution technology, therefore, is best viewed not as a singular proprietary system, but rather as a combination of component technologies, third-party and in-house, brought together within a clear blueprint and ideally connected into the three technology layers described earlier. A sample client journey shows how the technologies can work together to better support the entire lifecycle of a relationship with a buyer.

Exhibit 14: Distribution 2.0 Sample Client Journey



Source: Casey Quirk, Dublin

Newer distribution technology likely will erode the asset management industry's current lines between intermediary clients and institutional buyers. Distribution 2.0 technology blends the high-touch content effective in institutional relationship management with the mass customization delivery mechanisms of the intermediary world, permitting asset managers to deliver more customized and service-oriented client experience at scale to buyers regardless of their size.

There is no technology to organize distribution technology: that requires support from human capital across the enterprise. In fact, the technology will not work without capable distribution talent, which the various applications and systems leverage, not replace. Implementing a technology-centric distribution model effectively depends on three enterprise-wide initiatives, involving officers across multiple functions:

- A **new talent model** for the distribution organization
- An **action-oriented approach** to execution that focuses on rapid prototyping and more iterative processes that test, learn and refine
- A **change management** program with a dedicated leader, designed around sequential implementation and quick wins

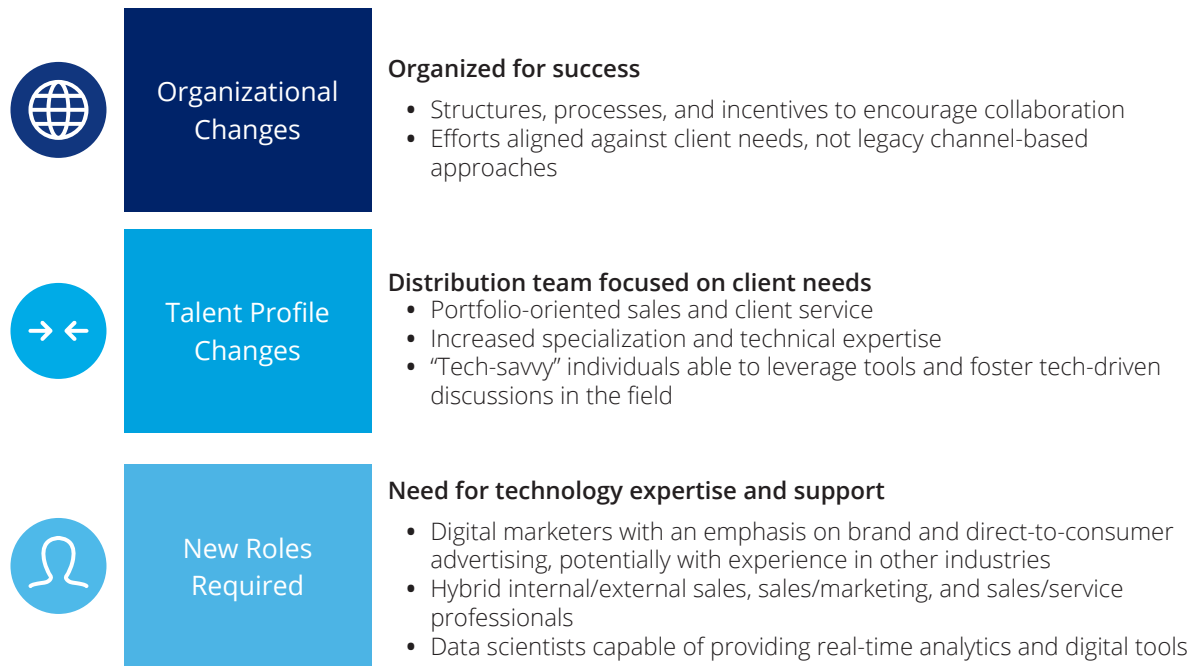
1. New talent model

Legacy distribution organizations within asset managers share many characteristics that no longer resonate with buyer demands: they lack the data to segment clients at anything more detailed than the blunt level of channels, they silo sales and service functions in many cases, and they “outsource” technology discussions to the CTO or contractors, deeming them less strategic for success.

Supporting technology-led distribution, however, involves organizing around buyers, not channels, in a way that better supports specific client journeys. Consequently, asset managers can reorient their talent acquisition and retention strategies as follows:

- **Reorganizing talent:** An increasing focus on client journeys will lead asset managers to create tighter cross-functional teams in distribution organizations, removing some of the current walls between sales, service, marketing, and support professionals. Additionally, firms will organize those teams according to specific client needs, rather than by legacy channels. Asset managers already have explored building teams created around the common needs of large institutional clients and large gatekeepers, which now are more alike than large and small institutional clients are to each other. Incentives will need to adjust accordingly as well.
- **Changing talent profiles for existing roles:** Distribution officers in both sales and service need to be focused on client needs, rather than simply on product characteristics. This involves recruiting more tech-savvy individuals comfortable with leveraging digital tools, but it also involves finding distribution professionals able to articulate an investment capability's advantages in a specific client context, by leading an portfolio-oriented conversation with sophisticated buyers. New talent also should feel comfortable forging strategic alliances with existing distributors and new entrants to create new, advantaged distribution opportunities.
- **Defining new roles:** Asset managers will need different talent to help link outputs from distribution-oriented technology to the human leaders of professional buyers. Distribution organizations will need to recruit data scientists, digital marketers who can build and broadcast consumer brands, and distribution professionals more adept at blending elements of sales and service. Distribution COOs are becoming more commonplace among asset managers.

Exhibit 15: New Talent Model for Distribution 2.0



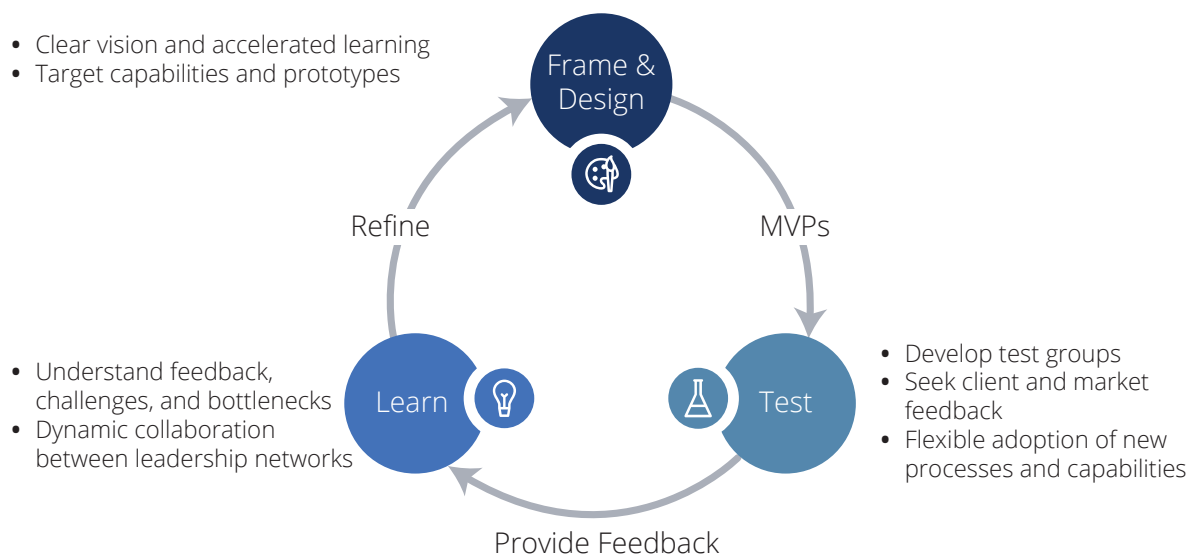
Source: Casey Quirk

2. Action-oriented execution

Asset management’s manufacturing-oriented model is ill-suited for rapid change, as it views innovation as only a product-level function; changes to the delivery model are viewed as wholesale shifts that are expensive, unwieldy and high-risk. Consequently, most distribution leaders have been reluctant to install the three layers of technology required in a new client environment, perhaps fearing that such projects are too big to succeed—at least on their watch.

Some distribution organizations that have started to transform themselves have done so by taking cues from the playbooks of other industries. They embrace the complexity of distribution transformation, but also appreciate the necessity of such changes. Consequently, to break down what is an often overwhelming transition, iterative execution processes—which embrace rapid prototyping and market testing in real time with pilot clients, rather than attempting to solve all issues perfectly at once—will be a necessary method that asset managers use to get their organizations and clients comfortable with new technology in a sequential, more affordable, way.

Exhibit 16: Action-Oriented Execution Processes for Distribution 2.0



Source: Casey Quirk

Creating minimal viable products (MVPs)—smaller changes, in terms of applications or processes—allows asset managers to gather “quick wins” that have several advantages: they can test and refine them in real time, they can fit into smaller budgets, and they can convince more skeptical distribution professionals that technology can be a highly useful tool in a day-to-day situation.

3. Change management program

The iterative process may encourage innovation, but it cannot function in a purely decentralized way. Most asset managers have failed to implement broad changes regarding distribution technology, perhaps because executives view such restructuring as a side project of an existing manager, rather than the responsibility of a dedicated leader. Asset managers seeking to transform their distribution organizations must assign the task to an enterprise-level executive, familiar with not only distribution and technology, but also with the products and services that may adjust as a result. Additionally, experienced project managers, potentially residing within a transformation office, will be necessary.

Exhibit 17: Change Management Leadership for Distribution 2.0



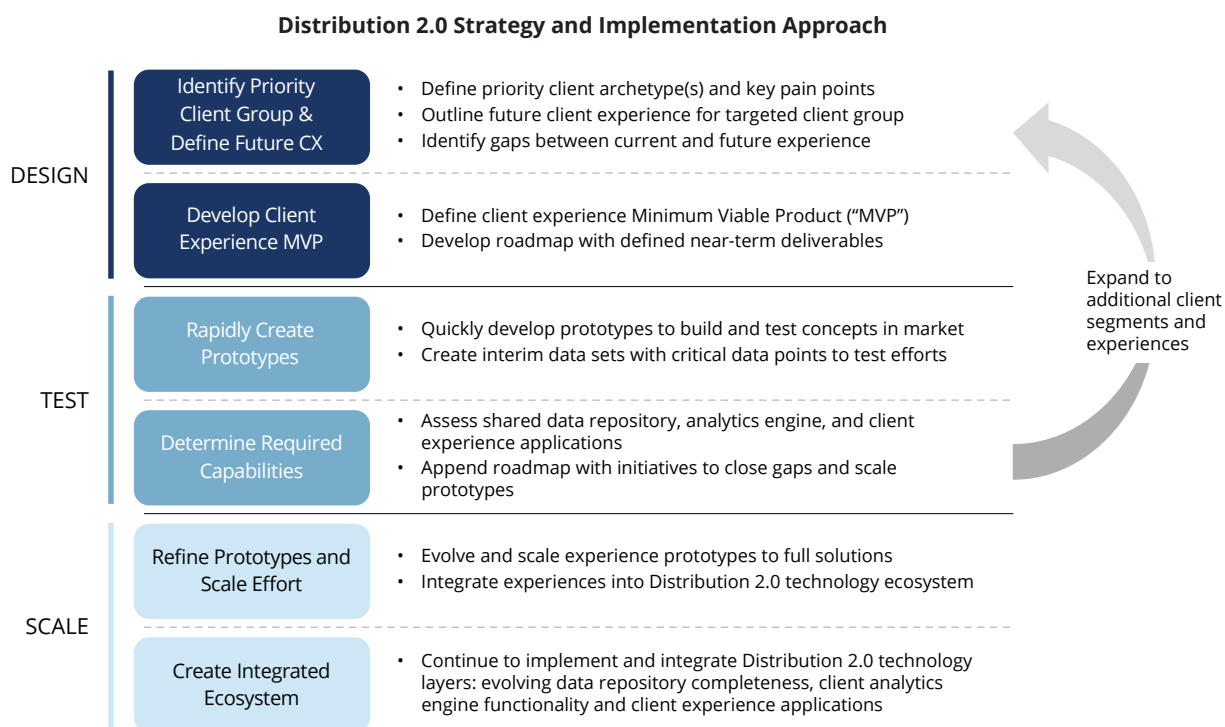
Source: Casey Quirk

The distribution transformation leader should have several key priorities:

- Setting the vision for distribution strategy across all elements, including technology and human capital
- Driving the integrated approach, including development of MVPs, as well as other initiatives
- Acting as champion for distribution transformation across internal constituencies
- Defining and measuring key success metrics, and tracking progress
- Ensuring implementation consistency across functional areas and geographies.

Some of this leader's first decisions will focus on deciding where to start. Implementing a Distribution 2.0 transformation all at once likely involves more budget and bandwidth than many asset management firms can afford. Transformation programs designed around "quick wins" tend to have the best chance of success. To date, asset managers successfully implementing new distribution technologies do so by focusing initial efforts on a core client set: usually one with specialized needs and representing a sizable portion of economics to the enterprise. Buyers falling into this category often include insurers, endowments and foundations, defined benefit plans in liability-management mode, large family offices and large gatekeepers for intermediary distribution.

Exhibit 18: Distribution 2.0 Implementation Approach



Source: Casey Quirk

This client-specific approach has several advantages. Narrowing the scope reduces execution risk and shortens implementation time. Building around MVPs permits real-world testing across a smaller, more loyal client base, safety-testing new ideas. Most importantly, successful smaller changes build confidence across the enterprise that new ideas in Distribution 2.0 can improve client acquisition and retention, raising appetite for broader transformation across the enterprise.

“Transformation” has become an overused word, but it truly describes what needs to take place among distribution organizations across the asset management industry. To succeed in a more competitive future operating environment, asset managers must understand and serve their clients continuing to meet rising expectations for levels of personalized service. Human capital will no longer be able to meet these demands without leveraging technology and a process to continuously innovate that technology. As a result, asset managers and other advice businesses—facing similar challenges—will look increasingly similar over time.

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