Consolidation in the Asset Management Industry
Table of Contents

Foreword

The Strategy of Consolidation

Getting It Right: Three Dimensions of an Ideal Consolidation Experience

Looking Ahead

Contributors
Consolidation is a major theme in the investment industry, with many institutions now contemplating merger and acquisition (M&A) opportunities.

On top of a slew of high profile deals over the past few years, new global research from State Street\(^1\) reveals that half of asset managers say it is either ‘somewhat’ or ‘very’ likely that they will undertake M&A or another form of consolidation activity over the next year. This can bring a range of benefits to investment businesses, from new asset class expertise to complementary product sets to enhanced scale and resilience. These priorities have taken on a new urgency in the era of COVID-19, making consolidation an attractive proposition for many organizations.

In this special report, we examine asset management industry consolidation through the lenses of strategy, culture, operating transformation and data. Drawing on perspectives from experts across Accenture and State Street, we offer our view on where the industry is headed and guidance on how firms anticipating a consolidation scenario can avoid some of the most common pitfalls. We hope you find these insights useful as you navigate the road ahead.

Now emerging from a turbulent 2020, we know the asset management industry is focused on the future, examining every avenue to accelerate growth.

\(^1\) State Street Growth Readiness Study, October 2020
The Strategy of Consolidation

Many factors drive consolidation in the asset management industry today, as firms navigate an extremely difficult environment.

The rise of passive investing and the steady march of fee compression have put pressure on investment business revenues. In 2019, assets under management for publicly traded asset managers grew by 19 percent while revenues grew 0.19 percent and gross margin compressed by 20 percent. On the expense side, many asset managers find it ever more challenging to achieve their cost reduction targets. With fixed costs that are often too high for their given level of assets under management, many managers are discovering that achieving any further meaningful long-term cost reduction may require significant transformation of their infrastructure, a path that must create a foundation for end-to-end digital transformation, requiring every business to become a cloud business. These trends converge to make a compelling economic case for merger and acquisition activity, within a highly concentrated ecosystem.

Looking to the future, we believe that as investors, especially institutional investors, place emphasis on an asset manager’s ability to deliver outcomes, M&A activity will be driven increasingly by a search for new capabilities and less by cost considerations. While synergies are a component of every deal thesis, we see a deeper, strategic focus on them now. This may be investment strategy expertise, or experience with complementary asset classes or product types. Acquisition targets may be attractive for opening entry to new customer segments or geographic markets, or for the enhanced scale or distribution power they can offer in existing markets.

State Street research bears this out, with results of a new study showing that increasing investment capabilities or product range was the top driver for planned consolidation, cited by 42 percent of traditional asset manager respondents contemplating it.

Looking to the future, we believe that M&A activity will be driven increasingly by a search for new capabilities.

2 Accenture analysis, based on public company Securities and Exchange Commission (SEC) filings in 2019
3 Source: State Street Growth Readiness Study, October 2020
This is a meaningful shift for the asset management industry, as firms begin to look rigorously at specific underlying capabilities (e.g., wealth management, exchange traded fund market leadership, etc.) that will be most complementary to their existing suite of offerings. In an intensely competitive marketplace, we believe the firms that truly embrace this capability-driven transformation agenda will be the most successful over the long term.

How should firms approach the integration process? In our experience, successful large-scale asset management merger integration programs are typically supported with three pillars, which govern the framework, management and execution (Figure 2).
Drawing upon the lessons learned from prior integration experiences, some clear best practices emerge for asset managers confronting a new consolidation scenario.

Having a solid structure in place from the beginning is the primary determinant of success. The integration timeline must be milestone-driven, with dates for close and cutover that are reasonable, well-communicated and achieved. Common program analytics should serve as the ‘single source of truth’ for dynamics across the new target organization.

The acquiring entity should over-plan for potential productivity disruption post-close and, with the aid of vendors who can scale their services, build in flexibility to resolve any emergent system or settlement issues.

Additionally, program leaders should quickly partner Integration Management Office (IMO) liaisons with functional leads, not hesitating to rotate if necessary to find a strong fit.

Source: Accenture, 2020
Comprehensive planning, communication and documentation must extend to all stakeholders, each with a unique set of needs.

**Customers**
- Over-communicate with customers for changes in customer experience and notification of cutover dates
- Track end-to-end customer experience gaps and mitigation approach as the primary indicator of the program’s success

**Employees**
- For transferring employees, focus on Day 1 enablement, which includes training, job aides and access to coaches if needed
- Establish a mechanism for seamless interaction of functional teams across the buyer and seller organizations, with clear rules of engagement and procedures to quickly escalate any issues requiring attention

**Service Providers**
- Ensure third-party service providers and vendors are informed at each step of the process and agree to key milestone dates
- Define future state interaction model and processes to minimize post-conversion hyper-care activities

Finally, the most successful integration programs are those that empower decision makers. Without this element, paralysis can result and accountability is diluted. With the right program structure and tools in place, complex integrations can proceed on track and yield a positive outcome for all stakeholders.

The most successful integration programs are those that empower decision makers.
Getting It Right: Three Dimensions of an Ideal Consolidation Experience

1. Culture

DR. BRIDIE FANNING
Talent & Organization Leader, North America Financial Services, Accenture

Q. What should industry leaders know about the cultural aspects of a merger or acquisition?

A. A good understanding of culture is essential to achieving a positive outcome in any consolidation scenario. In our industry, the M&A process tends to be driven by financially oriented leaders who often don’t think enough about the cultural aspects, which can jeopardize all the other benefits they’re seeking to reap from the deal.

For example, one company may have a flat organizational structure – highly collaborative and not overly tied to seniority or job titles. The other entity could be more traditional, attaching a lot of significance to organization hierarchy and status. The more different the companies are, the more challenging the integration becomes.

Even if the deal goes ahead, failure to fully take these aspects into account can threaten the long-term success of an acquisition. Large financial services firms often look to acquire new FinTech companies to provide a specific digital service. However, a traditional, legacy environment may not be appealing to the incoming workforce of technologists and digital specialists, so they leave. At that point, the whole reason the company was bought is gone – the acquired company can't function for the purpose it was acquired to do.

If HR departments are central to M&A deals from early on in the process, they can spot these potential challenges, bring them to senior leadership’s attention and devise strategies for mitigating problems. HR needs to be on the lookout, not just the for the usual due diligence issues around compensation structures and compliance, but for cultural issues that may make synergies in the deal difficult to realize post-merger, such as misalignment of working styles.

Q. What are some common mistakes that leaders make when navigating the talent implications of a consolidation scenario?

A. By far, the most common mistake is confronting the subject of cultural integration too late in the process. I’ve seen deals derailed over this multiple times. By the time senior leaders start to engage and understand what is similar and what is different, the divide can be too great to overcome without significant expense or time.
Q. How has COVID-19 changed or complicated the talent management strategy for mergers or acquisitions?

The COVID-19 crisis has further complicated what was already a challenging process, because all organizations are now trying to sort out new ways of working and the future is still so uncertain. Leaders are evaluating their company’s post-COVID work performance, determining whether productivity has been affected by the new ways of working. You have to think about how you go about a cultural integration in a virtual environment, and no two scenarios are the same.

Ultimately, a successful cultural integration will be driven by senior leadership in the newly created organization being willing to work collaboratively and recognize the best from both businesses. Ideally, an acquiring company will see behavior or practices that they think the acquired company does better and will take on those elements of the culture for themselves rather than just integrate the new company into their existing organization.

At the end of the day, success will be determined by the presence of effective leadership and a shared commitment to collaboration and integration.

Additionally, the costs of missed opportunities — such as the inability to enter new markets in a timely manner, onboard new asset classes or access critical portfolio insights — can be substantial.
2. Operating and Digital Transformation

Transforming operating and digital frameworks can be a daunting prospect for asset managers, particularly if they are experiencing consolidation activity. There are plenty of high-profile industry examples of how this process can go awry — from overrun budgets to delayed timeframes. It is no wonder that the idea of uprooting complex, bespoke systems can cause fear or even denial.

Leaders usually sense when their current operating model does not adequately support the long-term growth objectives of their firm, but the perceived risks associated with transitioning to a new framework can keep them shackled to legacy systems. Unfortunately, these outdated platforms can end up posing extensive risks of their own.

Figure 3

Current state map of operations, tech and associated costs
Future vision and options for execution
Ongoing reporting and evaluation

Intake
Define cost position and capabilities needed to support strategy and ideal vision for the future

Operational Health Check
Conduct diagnostic assessment of cost structure; review operating model vs. current and likely future industry performance

Specialist Consult
Engage subject matter experts to inform action plan in areas needing extra attention

Process Shift
Execute action plan, moving incrementally to a more standardized operating model with a stronger risk profile and better cost structure

Refinement and Monitoring
Maintain vigilant oversight of new operating model and make adjustments as needed

\* State Street analysis, 2020
It does not have to be this way. With the right discipline, governance and capabilities from trusted partners who have seen many different kinds of operating models, transformation can deliver powerful results for asset management businesses.

Approximately 30 percent of a typical asset manager’s cost structure is devoted to operations and technology.

There are many levers that can help reduce this cost base — such as moving to a more standardized and centralized set of processes, enhancing location strategy and re-thinking how technology is maintained and upgraded. In our experience, taking action in these areas can reduce the in-scope cost base by as much as 20 percent.4 Furthermore, shifting from a mostly fixed cost structure to one that is variable can offer greater flexibility to scale the business as asset levels change and priorities evolve.

Just as medical professionals perform a sequence of activities to diagnose and treat ailments, asset managers can embark on this discovery process to improve the operational health of their institutions. Figure 3 shows a sample roadmap for this journey.

In moving from current state to an ideal future state, it is helpful to first understand where an asset manager stands relative to peers in key dimensions. There are several areas where a firm may be devoting excessive resources given its level of assets under management. For example, technology expenses encompass application development and support, network security, licensing fees, market data, facilities, user support and a host of other functions.

**Figure 4**

<table>
<thead>
<tr>
<th>Automation</th>
<th>Scale</th>
<th>Commitment</th>
<th>Efficiency</th>
<th>New Capabilities</th>
<th>Data</th>
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<tr>
<td>Standardized, centralized processes drive operational risks down</td>
<td>Global reach and resilient systems can fuel growth</td>
<td>Partners with proven track records and senior-level commitment deliver results with accountability</td>
<td>Disciplined, rigorous onboarding and strong process governance minimize disruption</td>
<td>Operating models must have in-built capabilities for future growth plans, not just today’s business needs</td>
<td>The foundation of improved profitability and better investment decisions is timely, accurate data</td>
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The senior leaders of a large, global asset manager were contemplating a potential acquisition to accelerate their long-term growth strategy and deepen penetration in key markets. As these discussions progressed, the team began to view their current operating model with growing unease as they grappled with the implications of bringing a new entity into their sprawling environment. A patchwork quilt of systems, some custom-built and others inherited as legacy systems from acquisitions years ago, presented significant operational complexity and risk. Multiple compliance workflows were supported by separate systems, which produced false positives and limited the ability to obtain enterprise-wide views. They concluded they couldn’t succeed in their acquisition strategy without first streamlining and rationalizing their operating and data environment.

The management team articulated their goals around scale, efficiency, and the creation of a single global operating model to streamline existing activities and accelerate the onboarding of any future acquisitions. Working closely with their service provider, they mapped out a path to adopt a single, multi-asset investment platform, which eliminated multiple front and middle office systems and several offline, manual processes.

This approach had many benefits, including greater freedom to focus on their core investment management business, improved data management and delivery capabilities, and better information access for their employees in offices around the globe. Additionally, an asset-based fee schedule increased transparency into their operating costs and shifted their cost structure from fixed to variable. Their new operating model is more supportive of future growth, whether organic or acquisitive.

Many firms are finding that technology costs are escalating, and are searching for ways to alleviate that pressure. Operational transformation can offer a solution to this dilemma, as the continued investment in upgrading technology infrastructure is borne by the outsourced partner instead of the asset manager.

To avoid the common operational pitfalls that have flummoxed many others in the industry, we urge asset managers to consider the following factors — our ASCEND framework — when planning for their future.

We believe that asset managers, with the right roadmap in place and partners to support them on their journey, can reap the rewards of transformation – allowing them to better serve their investors and improve their bottom line.

In Practice:

**Taming of the Sprawl**

The senior leaders of a large, global asset manager were contemplating a potential acquisition to accelerate their long-term growth strategy and deepen penetration in key markets. As these discussions progressed, the team began to view their current operating model with growing unease as they grappled with the implications of bringing a new entity into their sprawling environment. A patchwork quilt of systems, some custom-built and others inherited as legacy systems from acquisitions years ago, presented significant operational complexity and risk. Multiple compliance workflows were supported by separate systems, which produced false positives and limited the ability to obtain enterprise-wide views. They concluded they couldn’t succeed in their acquisition strategy without first streamlining and rationalizing their operating and data environment.
3. Data

JOHN PLANSKY
Head of State Street Alpha℠

Q. How important is the data element of a merger or acquisition scenario?

A. Data is the lifeblood of a business, and this is especially true for asset management. The challenge of combining data from separate entities can be enormous. There’s a lot that can go wrong if fragmented or cobbled-together systems stay in place post-close. If not expertly managed, merging multiple systems can result in operational or reporting errors that can ultimately push an asset manager’s customers to competitors.

Q. What is the best way to solve this data challenge?

A. Integration must be tackled deliberately and thoughtfully by experts who can “see around the corner” to head off potential trouble. We believe the optimal data platform is one that has front-to-back capability from the get-go, with everything in one place and not on multiple screens to offer a single source of truth. Furthermore, an open architecture framework is helpful, as it allows investment professionals to choose their own products and services to meet the unique demands of their investment process. That kind of optionality is invaluable in today’s market.

Q. What does the future hold for how asset managers use and consume data?

A. Improving investment performance and operating margins will hinge on firms’ ability to integrate and harmonize data, connect their systems and make use of best-in-breed technologies and applications. If firms lay the right data foundation today for the next stage of their development, they will be well positioned to capture new growth opportunities. At State Street, we believe the future is bright for the asset management industry. It’s a privilege for us to help build a more connected ecosystem for our clients to manage the entire lifecycle of their investments with confidence.
Looking Ahead

Asset management is on the cusp of a new era. The COVID-19 pandemic has brought many challenges and opportunities into sharp relief. We are confident that our industry will emerge even stronger and more resilient from this experience.

Continued consolidation activity will be a part of this story. Capability-driven deals will be top of mind for industry leaders as they focus on how to deliver maximum value. It’s imperative that firms in scope for a merger or acquisition be proactive, decisive and consider every possible angle.

Asset managers should also seek out specialist expertise to help guide them on this journey and avoid the mistakes that have befallen others in the past. By learning from our past experience, we can create a better future.
DR. BRIDIE FANNING

Bridie is a business transformation HR Executive operating in both senior consulting and CHRO roles with a 30-year track record of revitalizing companies to accelerate profitability and growth. Her expertise lies at the intersection of digital and talent that drives improved business outcomes, aligns organization culture to strategy and brings organizations into the digital age. Clients worldwide engage Bridie to increase the effectiveness of their people capabilities by creating differentiated talent strategies, strengthening their strategic HR capability and transforming global operating models leveraging innovative Technology and improving service delivery.

JOHN LEHNER

John Lehner is an executive vice president and head of State Street’s asset manager segment. In this role, he is responsible for ensuring the Institutional Services business segment strategy and engagement is aligned. John is also responsible for the Institutional Services Americas regional business. He is a member of the company’s Management Committee, its most senior strategy and policy-making team.

Prior to this role, John was head of State Street’s Investment Manager Services (IMS) business. Prior to State Street, he served as chief executive officer of BNY Mellon Technology Solutions, chairman of Eagle Investment Systems and president of BNY Mellon New England. John was also a member of the BNY Mellon Operating Committee.

John has more than 25 years of experience in the financial services technology industry with a unique background in both the buy and sell side as well as significant expertise in building and leading successful organizations in the global financial services product, technology and services arena.
DONNA MILROD

Donna Milrod is the executive vice president of State Street Corporation and head of the Global Client Management division. Donna leads a global team delivering sales, strategy and relationship management activities across State Street’s client base and is responsible for revenue generation and cross-enterprise solutions for the company’s global and most complex clients. She is also a member of State Street’s Management Committee, the company’s most senior strategy and policy-making team.

Donna has 25 years of experience in banking and financial services including leadership positions at Deutsche Bank, where she served as deputy chief executive officer for its North America business. At Deutsche Bank Americas, she was a member of the Regional Executive and Client Committees with responsibility for its North America clients and revenue. Most recently, she was a senior advisor to both Broadridge and McKinsey & Company, where she provided advice for navigating risk, optimizing operating efficiencies and increasing revenue growth. Donna’s most recent executive role was with the Depository Trust and Clearing Corporation (DTCC) where she served on the Management Committee and was the head of DTCC Solutions, delivering innovative post-trade processing solutions to clients. She also led global strategy and business development. Prior to that, she was the chief administrative officer leading operations and finance.

GERRY HEALY

Gerry Healy is a managing director in Accenture’s Asset Management practice in Boston. Over the past 20 years, he has helped clients mitigate risk, improve quality and increase efficiency by communicating with stakeholders, creating strategic alliances and using technology effectively. His areas of expertise include operating model development and business process redesign, strategic partner selection, data management strategy, and tax and regulatory strategy. Prior to joining Accenture, Gerry was a principal at Beacon Consulting Group.
JOHN PLANSKY

John Plansky is an executive vice president at State Street and oversees State Street Alpha℠, the industry’s first global front-to-back platform from a single provider, which integrates State Street’s back- and middle-office capabilities with Charles River Development’s front-office expertise.

John has a history of leading global operations, growing businesses and integrating teams with different capabilities and skill sets to produce better outcomes. He joined State Street from PricewaterhouseCoopers (PwC) where he led the US Strategy and Global Platforms businesses. John was also a member of the PwC Advisory Financial Services leadership team.

Prior to the acquisition of Booz & Co. by PwC, John was a senior partner at Booz & Co. where he led the technology practice and advised global financial institutions such as State Street. Prior to that role, John was CEO of NerveWire and orchestrated the company’s sale to Wipro, where he subsequently oversaw their global capital markets business.
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