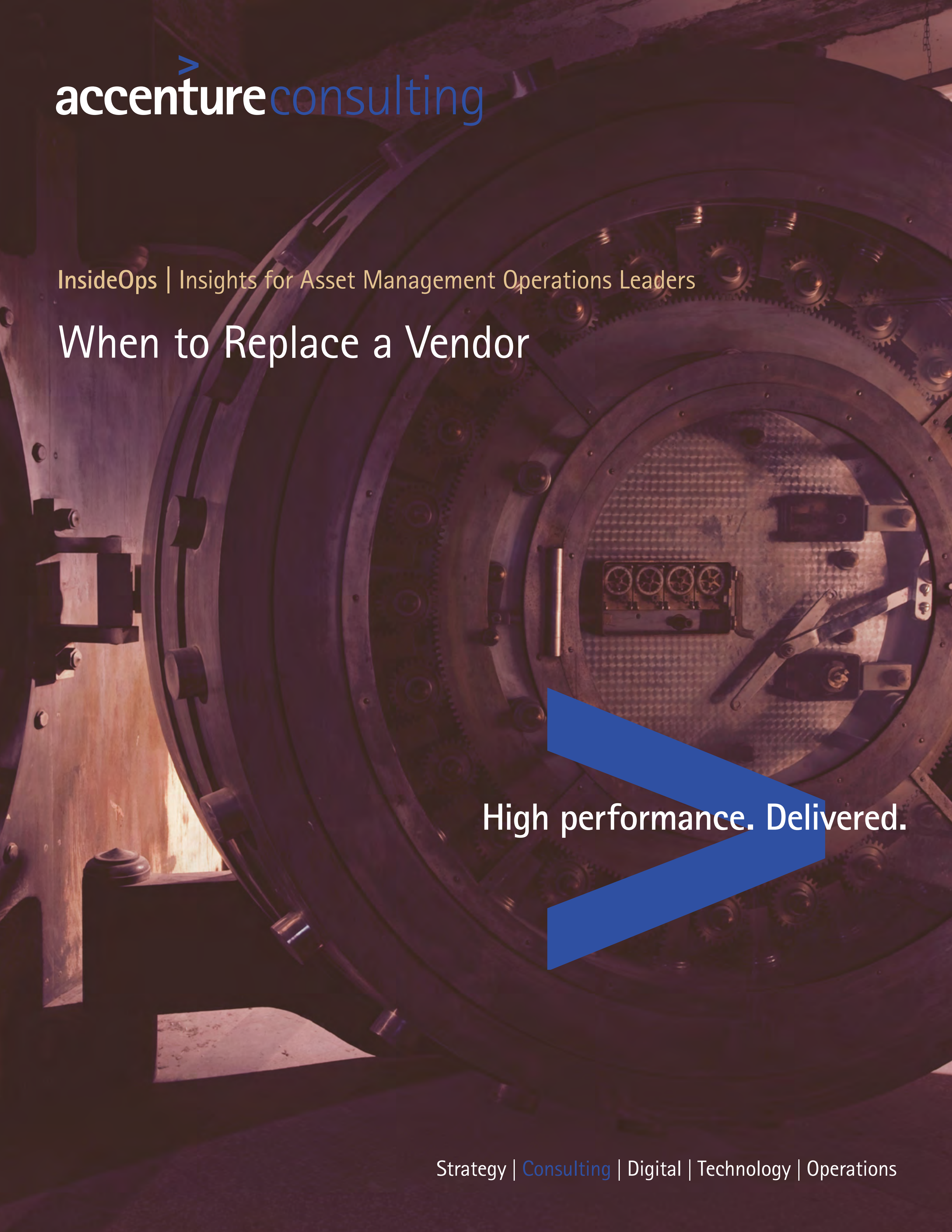


accenture consulting

InsideOps | Insights for Asset Management Operations Leaders

When to Replace a Vendor

High performance. Delivered.

Strategy | Consulting | Digital | Technology | Operations

Service provider and vendor relationships are critical to the success of asset management firms.

Depending on the level of outsourcing, these relationships could range from simple custody to full service middle and back office functions. Regardless, the decision to replace an external service provider should not be taken lightly. While sourcing, vetting and converting to a new partner or technology is often a multi-year endeavor that consumes considerable resources, making the investment to find the right partner is a good investment for both the medium and long terms. For some asset managers, the key motivating factor to seeking a new partner lies in service challenges. In many cases, cost considerations, consolidation of the number of providers, or lack of innovation may also drive the decision. By and large, multiple elements conspire to create need for change.

Service Challenges

Client service and relationship management are paramount to the success of an outsourcing model, be it middle office, back office, custody or technology. Clients should enjoy an experience supported by a robust governance model and service level culture that ensures issues are escalated and addressed in a timely fashion. While no service provider is perfect, the speed and success with which issues are resolved demonstrates the vendor's level of commitment to the relationship.

If service providers fail to meet their clients' expectations, corrective action may include conducting a service model assessment, meeting with vendor senior management, or implementing new service level agreements. In many cases these actions are enough to restore the relationship, but in some instances remediating the situation may not be possible, even when both parties have the best of intentions.

When assessing whether your client service issues warrant a vendor change, consider the following:

- Are SLAs/KPIs being met? If not, how long have they been deficient? Does the service provider have a plan in place to address the problem areas?
- When was the last executive level meeting to discuss the relationship? What was the outcome of the meeting? Did the vendor follow up on its commitments?
- How high is the turnover of the service provider's client-facing staff? If high, has the vendor acknowledged the issue and implemented an improvement plan?
- Do you believe you are being heard by the vendor?
- Is the service provider proactive in understanding your business and seeking solutions?

Lack of attention, lingering problems or a weak service level culture may be a signal that the current service provider is no longer a good fit for your business.

Business Evolution and Consolidation

With proper due diligence in place, new service provider relationships are usually a good fit for both parties at the outset. However, the businesses of the client and service provider both change over time.

Asset managers add new products, expand into new markets, and adapt to regulatory changes. Service providers and vendors may shift their focus from mid-market clients to larger clients or from one area to another (e.g., institutional to retail funds). As asset managers' business models change they may require additional service providers. This shift could include multiple custodians, multiple fund administrators, or various outsourced technology solutions.

The need to consolidate service providers may increase along with the number of relationships and complexity of the operating model. When assessing whether consolidation has merit, consider the following:

- Is our outsourcing model by design or is it a patchwork of legacy relationships?
- Are we maximizing the leverage of centralized functions?
- Are we maximizing our buying power with vendors and service providers to get the best economic arrangement possible?
- Have mergers been fully integrated into the parent company?
- When was the last operational assessment completed?

If operational overlap occurs due to siloed operations, that should serve as a signal to reduce the vendor/service provider footprint and simplify operations.

Cost

Containing cost is a primary concern when considering a service provider. As competition puts pressure on investment management fees, and regulatory changes and client expectations inflate the cost of operations, budgeting efficiently becomes more of a challenge. Middle and back office outsourcing as well as technology solutions are so complex and bespoke, it is difficult to obtain price transparency without going through an extensive RFP process.

Renegotiation of existing contracts and utilization of third party benchmarks are viable solutions, but they do not typically provide the leverage required to drive down prices to market lows. Asset managers can realize the best possible value proposition by "going to market"—using the RFP process and remaining open to the possibility of switching vendors and consolidating outsourced functions.

Management's assessment of the cost consideration should include contemplation of the following questions:

- Has it been more than five years since our last RFP?
- Has our business changed materially since our last RFP and/or renegotiation?
- Could we outsource more functions or consolidate utilizing fewer service providers/vendors?

If the answer is "yes" to any of these questions then it may be beneficial to switch vendors or, at minimum, explore alternatives in the market.

Innovation

The pace of change in the financial services industry will continue to accelerate. These changes occur on multiple fronts: regulatory, market, competitive landscape, technology, and investor demands.

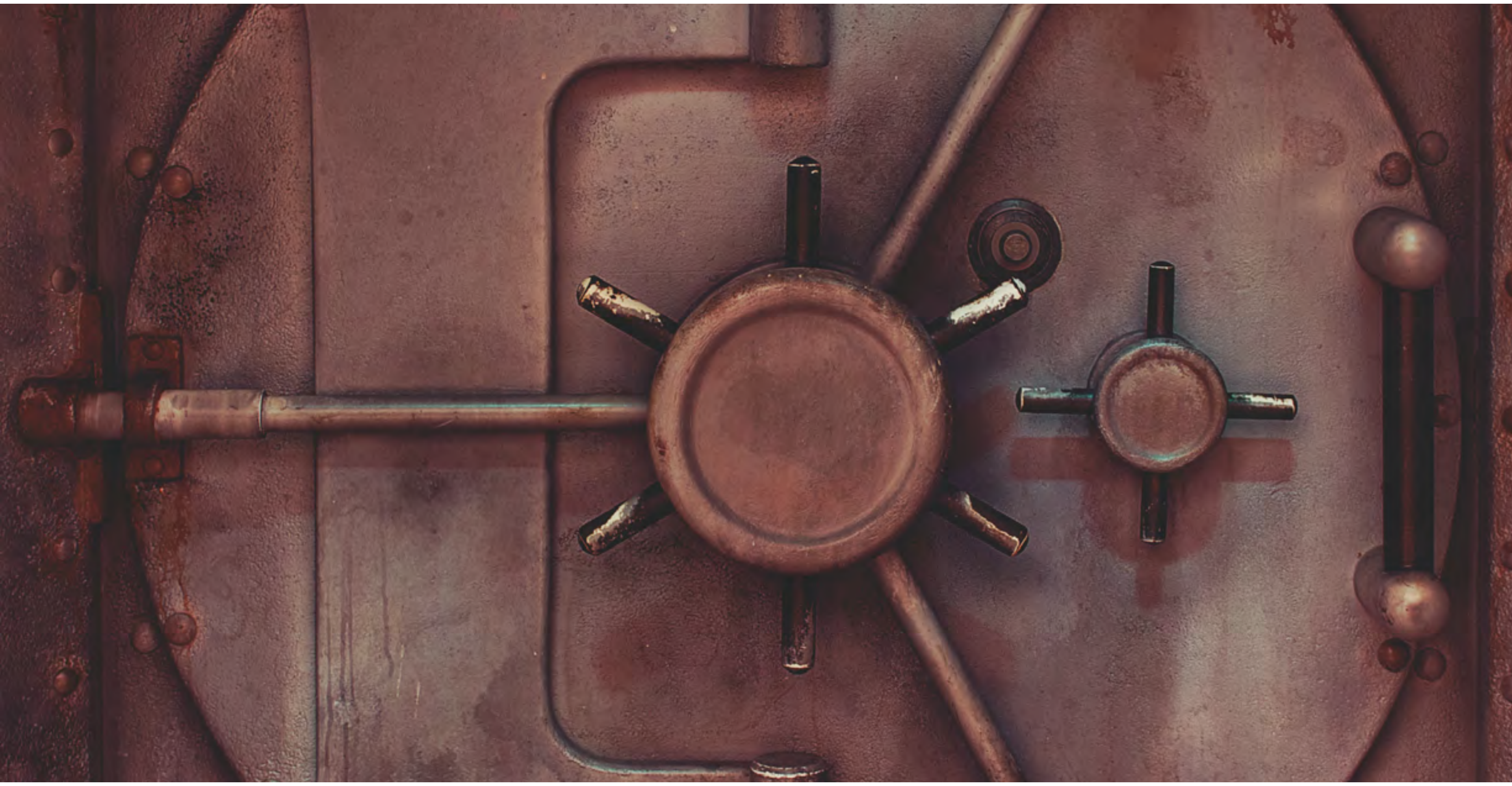
To stay competitive, asset managers rely on their vendor partners for the services and tools required to not only keep pace but also give them a competitive advantage. All vendors that service the industry, from technology providers to large global custodians and administrators, must continually invest in research and development to ensure their offerings stay current. Failure to adequately and intelligently innovate will result in stale service offerings and technology at risk of being unsupported. Either of these potentially put the vendor's financial health in jeopardy.

A strong provider will continually upgrade technology solutions, introducing new service offerings and lead industry discussions regarding change. To assess whether your existing service providers and vendors are innovative, consider the following:

- When was their last major technology upgrade?
- What solution did they offer to address regulatory changes (Dodd-Frank, Form PF, etc.)? Was this a manual work-a-round or an industrial strength solution?
- What is the size of their technology budget? Is it growing?
- Has the business recently been sold? What is the commitment of the new owners to invest in the business?
- Is their thought leadership robust and valuable?
- Do they have a scalable operating model?

Staying with a service provider or vendor that is not investing in innovation could introduce serious risks in the medium and long terms, especially with technology platforms. Lack of support for technology solutions, even robust ones, may result in the sale of the platform, a lack of customer support or solutions that are ultimately unsupported and discontinued by the vendor.

In most instances, no single factor drives management to change vendors, rather, multiple issues collectively yield the change. Service provider management and selection should be viewed as an ongoing process. Proactive management will promote an infrastructure that is flexible, adaptive, cost efficient and risk averse.



Contacts

Girard Healy

Managing Director

girard.healy@accenture.com

Robert Rafferty

Managing Director

robert.rafferty@accenture.com

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 375,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

This content was previously published by Beacon Consulting Group. Beacon is now part of Accenture.

16-3039