PREPARING FOR A SUCCESSFUL VENDOR CONVERSION

INSIDEOPS: Insights for operations leaders in asset management
Few things are more daunting to an asset manager than changing service providers. Service provider conversions can be painful, risky and expensive. They can distract management from core value-added activities, such as managing investment strategies and satisfying clients.

On the flip side, if they are structured and resourced accordingly, service provider conversions could be accomplished with minimal disruption. Done properly, they could have the potential to not only provide significant benefits to asset managers and their clients, but also to further reduce operational costs, enhance capabilities and align unwieldy systems that have grown haphazard over time.
KEY STRATEGIES FOR A SUCCESSFUL CONVERSION

“Every battle is won before it is fought.”

Sun Tzu

Although Sun Tzu is talking about war in his quote, the same lesson can be applied to a change in vendors. A service provider conversion that is thoughtfully planned has a much better chance of success. Key elements of a well-planned approach include:

- **Preparation**: Consider the impact of the change from all angles
- **Alignment**: Ensure all stakeholders have the same objective
- **Organization**: Prepare detailed plans and contingency procedures
- **Objectives**: Clearly define your goals

Taken together, the above mentioned elements can form the foundation of four key steps for a successful conversion:

1. **Ensure readiness**
2. **Provide effective direction to the new service provider and stakeholders**
3. **Assemble an effective program management office (PMO)**
4. **Define the future-state technology architecture**

Ensure readiness

Before beginning a conversion, it is crucial to have the appropriate knowledge, confidence and expectations for what lies ahead. To know what will change, you must first have a clear understanding of how in-scope functions work today. For some asset managers, this information will be readily available in documented procedures and work flows. For others, a refresh might be required to validate and confirm the current state.

Both the client and the new service provider should identify which entities and internal teams will be affected by any process changes, and whether there are any constraints or requirements to consider. A workflow diagram can help illustrate the processing environment by noting:

- The systems and applications used
- Organizational touchpoints and handoffs
- Upstream and downstream dependencies, and high-level timing requirements
- Connectivity and touchpoints between separate functions
- Handoffs between the asset manager and the new service provider

A complete inventory of inputs and outputs (e.g., reports, files and extracts) should also be created to serve as a resource for current process-oriented reporting and the basis for the service provider’s future-state solution.
Provide effective direction to the new service provider and stakeholders

Outsourcing providers usually offer a wide array of services that can be adapted to a client’s needs and the service provider’s capabilities. Providing guidance and direction to the new service provider is critical for helping ensure that an asset manager’s needs are met.

Before service providers begin designing solutions as part of the new client setup process, make sure they have the materials and information they need. Start by defining and clearly communicating business requirements. In most instances, that will occur during the service provider selection process, and be refined and confirmed during conversion. In cases where the service provider has not changed for many years, it may be beneficial for asset managers to seek external advice. All parties are best served by confirming that needs are clearly understood and activities reside with the appropriate party.

Mitigating conflicts of interest, managing different priorities and clarifying objectives are all important challenges that must be addressed. Misaligned interests are endemic to relationships among service providers, clients, and internal and external stakeholders. Service providers may be seeking a conversion that’s as inexpensive as possible, while stakeholders may be most interested in efficiency. Other participants are likely to focus, quite reasonably, on quality. Aligning these interests by creating appropriate incentives early on will help prevent costly disruptions down the road.

Assemble an effective PMO

While domain knowledge is vital for an effective conversion, program and project management skills are equally important. Establishing governance protocols and participant roles at the outset can help facilitate a successful conversion. All transition projects need a governance plan, a steering committee and a PMO to provide oversight and coordination:

**Governance plan:** An effective governance structure provides consistent management and cohesive policies, supports collaboration, and establishes decision-making guidelines for work-stream leaders. Conversion projects should have clear project sponsorship within the organization. The ideal governance structure should include someone from each business line who holds a leadership position and is directly affected by the project’s outcome.

**Steering committee:** The steering committee is responsible for managing competing interests within the company, encouraging collaboration, and ensuring that the project satisfies management’s objectives and expectations. In prioritizing constituent needs, the committee must consider all angles and make decisions that are in the best interest of the overall program. To be effective, the committee should possess a level of authority that is proportionate to the scope of the project. The means and mechanisms for exercising this authority should be outlined in the governance plan.
**PMO:** A well-run PMO is essential for the effective execution of any large-scale project. Often, asset managers will assign a resource from inside the business with the expectation that he or she will perform this new role alongside existing duties. Best practices suggest using a dedicated resource with significant experience running back-office conversions to help ensure that the project is well managed and poised for success.

**Define the future-state technology architecture**

Clearly defining and communicating the conversion project goal or “finish line” is necessary for measuring and helping achieve success. Without an end state in mind, the implementation team will be forced to address design gaps on the fly and the project may never be complete.

The act of conversion involves moving activities from one group (the legacy provider) to another group (the new service provider); it is not a business process redesign or a technology enhancement initiative. The functional operating model, process and technology will almost certainly change, but only to the extent required for an effective conversion. To avoid diluting resources and creating unnecessary interference, consider avoiding nonessential technology enhancements, expanded functionality and improved efficiency strategies during a conversion.

Service provider relationships rely heavily on technology. Clients are typically provided access to accounting, custody, lending, shareholder and performance data through web portals, reports, feeds and extracts. Often, clients and middle-office providers have separate systems to support investment analytics, portfolio management, portfolio accounting and client reporting. It is critical that these systems have solid interfaces that help enable them to work well together.
CONCLUSION

Service provider conversions do not have to be overly complex or burdensome, but they do require careful planning, clear objectives, hard work and discipline. The most common reasons for failure include poor design, an undisciplined PMO or changes in underlying assumptions—all of which can be overcome with adherence to the strategies outlined above. Don’t let a fear of change prevent a service provider conversion that could benefit shareholders, investors and asset managers.