



A Spotlight on Client Service
Differentiating Through Superior
Client Service in the Institutional
Asset Management Marketplace



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You are reading Chatham's inaugural *Spotlight Series* white paper. Each of these documents will examine issues of urgent importance in the asset management community, with a laser focus on providing actionable ideas based on the nuanced realities of the markets in which our clients participate.

A SPOTLIGHT ON CLIENT SERVICE

DIFFERENTIATING THROUGH SUPERIOR CLIENT SERVICE IN THE INSTITUTIONAL ASSET MANAGEMENT MARKETPLACE

Market Uncertainty is Here to Stay

Uncertainty is a fact of life for institutional asset managers today. Gains or losses of 200 points on the Dow are routine. The extent to which credit woes will spread beyond the subprime market is unknown. Even though consumer confidence is at a post September 11th high¹, many industry experts predict that US stocks will remain flat for the foreseeable future. Recent pension legislation and regulations are only adding fuel to the fire in this already Byzantine environment.

A Renewed Interest in Client Service

With uncertainty, however, comes opportunity. The press fondly reports on the most obvious examples, such as investment managers targeting new markets, launching new products, or acquiring new capabilities. Less ballyhooed are the efforts many firms are taking behind the scenes to get “back to the basics” and shore up their client service platform. In the face of volatile markets, when top quartile returns are fleeting, offering superior client service can be a sustainable competitive advantage.

The opportunity to differentiate through superior client service is not lost on our industry. Chatham Partners has noticed an unmistakable uptick in interest in conducting client satisfaction surveys in 2007, unmatched since the burst of the internet bubble earlier this decade. The fundamental question to which these firms are seeking an answer is “How do we develop a client service platform that will differentiate our offering in the marketplace?”

The answer to this seemingly simple question is unfortunately not so straightforward. However, since it is a question of urgent importance to our clients, we hope that this white paper will cast a spotlight on our relevant proprietary client satisfaction data and the practices leading investment managers pursue to differentiate through client service.

Good News and Bad News

Since 2001 Chatham has collected over 5,000 client satisfaction surveys from institutional investors across virtually all asset classes and market segments. Using this data, we carefully examined the client service-related attributes most highly correlated to overall satisfaction to confirm that high-quality client service indeed impacts overall satisfaction, and if so, which specific client service-related attributes will have the greatest impact on institutional investors’ satisfaction levels.

¹ The Conference Board data, July 31, 2007.

This quantitative analysis produced both good news and bad news. The good news is that client service indeed matters. Taken together, the client service-related attributes included in our analysis explained 40% of respondents' overall satisfaction with their investment manager. So, while performance is still king (it explains most of the other 60%), there is clearly opportunity to differentiate through superior client service. But, unfortunately, it's not going to be easy. The bad news is that our research did not reveal any one client service "silver bullet" that, if performed extremely well, would alone lead to high overall satisfaction levels. Instead, there are a collection of service-related activities, listed below, that together drive client satisfaction.

Rank	Service-Related Drivers of Satisfaction ²	Beta Coefficient
1	Market / investment knowledge of portfolio team	.21
2	Clarity of investment reports	.20
3	Problem resolution skills of client service representative	.12
4	Frequency of contact of client service representative	.11
5	Timeliness of investment reports	.10
6	Ease of navigation of website	.09
7	Level of preparation for investment review meeting	.05
8	Client service representative understands my unique needs	.04
9	Responsiveness of client service representative	.04
10	Reporting capabilities of website	.03

Once we identified the leading service-related drivers of satisfaction, we then examined practices employed by the investment managers receiving the highest satisfaction ratings for each of these activities. We noticed three overarching commonalities across these top-performing firms. First, these firms understand their clients' needs and expectations. Second, these managers leverage this knowledge to shape their clients' perceptions through uncommonly disciplined communication efforts. And third, they develop a culture of empowerment within the client service team that perpetuates excellent service.

Know Your Clients

True or not, each client believes they have unique needs. Convincing clients that the firm understands those needs is not only an important driver of satisfaction, but it is also the foundational element for shaping perceptions and providing ongoing high-quality service. All too many investment managers, however, undervalue and overlook this critical step in the service process. Fortunately, getting to know your clients is easier than you might think.

In fact, the top-performing firms tend to approach this effort similarly. The first step is to ensure client knowledge does not reside exclusively with a handful of (potentially transient) employees. This is frequently accomplished by developing a central

² The service-related drivers of satisfaction are the independent regression variables; overall satisfaction with relationship is the dependent variable; $r^2 = .40$.

repository of information about clients, such as a client relationship management (CRM) system, and ensuring its widespread adoption across the organization. Next, these managers implement an ongoing, structured approach for gathering unfiltered information about clients' purchase decisions, satisfaction levels, willingness to promote, and investment needs. Only once holistic relationship snapshots exist can the client service team begin to shape perceptions and serve clients according to their unique needs.

Shape Perceptions through Disciplined Investment Communications

Perception is reality when it comes to client satisfaction levels. Once a client makes the initial purchase decision, shaping these perceptions is the responsibility of the client service team. As we examined the practices of firms receiving the highest ratings in service-related client satisfaction drivers, we were struck by the disciplined communication efforts these firms use to shape their clients' perceptions. To illustrate this observation, we have described some of the disciplined efforts used to enhance client perceptions regarding the knowledge of the portfolio team, clarity and timeliness of reports, value of investment review meetings, and usefulness of the website.

❖ Leveraging investment professionals

Institutional investors want to have confidence that the people managing their money are capable and knowledgeable. It's that simple. And, the client service team has the opportunity to provide clients with a sufficient opportunity to draw that conclusion. Among the 50 client service-related attributes we examined, the market and investment knowledge of the portfolio team was the leading driver of client satisfaction. Regardless of whether managers utilize a star or team-based system, the firms receiving the strongest satisfaction ratings in this area ensure that the client-facing activities in which their investment professionals participate are highly leveraged to touch the greatest number of clients at once. By maximizing the inherently limited time investment professionals spend on client service through conference calls, client conferences, or webcasts, clients of all sizes are simultaneously reassured that their investments are in good hands.

❖ Crafting expectations for investment reporting

The clarity of investment reporting is the second leading client service-related driver of satisfaction and the timeliness of investment reports is the fifth leading driver, findings that suggest that reporting is more critical than many managers seem to understand. As we all know, institutional investors' reporting needs vary by market and frequently even by client. Some clients desire succinct, quantitative reports, while others seek detailed commentary on portfolio attribution or market strategy. Almost all clients want reports to arrive immediately after the close of the period and consistent with reports from other managers. In response, successful managers architect their reporting strategy according to the needs of their clients, as identified through voice of the client research. Some firms simply revamp universal reports based on client feedback, while others offer a range of reporting options to clients. Regardless of the approach, once client reporting needs are understood, top-performing firms clearly set expectations about the formatting and

timing of investment reports and reliably deliver against those expectations. The differentiation occurs through the upfront diagnosis of client needs and expectation setting, not the actual execution.

❖ *Offering need- and value-based investment reviews*

Investment review meetings hold great potential for mutual benefit. Clients realize that this benefit is enhanced with proper pre-meeting preparation, likely the reason that the level of preparation for investment reviews is a leading driver of client satisfaction in our analysis. Investment reviews receiving the highest praise from clients are tailored to meet specific client interests, which can range from discussions of performance concerns to views on the near-term investment outlook, and frequently include the presence of the portfolio manager. Realizing that achieving this gold standard for all clients is (practically speaking) impossible, the firms receiving the highest scores for level of preparation segment their clients based on value and need, and then target the appropriate clients for investment reviews. Additionally, many firms have received a positive reception to web- and telephone-based investment reviews.

❖ *Developing a website feedback loop with inexperienced-users*

With such widespread exposure to state-of-the-art retail websites, institutional investors have very high expectations for their managers' sites. Interestingly, clients consider ease of navigation and reporting capabilities to be more important to their overall satisfaction than content available, website functionality, or the online helpdesk. We suspect that ease of navigation, listed as the sixth leading driver of satisfaction, bears particular importance because most clients visit their managers' sites irregularly and are unacquainted with the site structure. The top-performing managers in this area understand the practical implications of clients' website usage pattern and give disproportionate credence to feedback from inexperienced users rather than relying exclusively on power users or employees who visit the site regularly. In particular, these firms seek ideas from low-usage clients through an ongoing, structured process that typically focuses on helping clients to find the information they need as efficiently as possible.

Empower the Service Team

Developing an understanding of client needs and approaching communications in a disciplined fashion requires an investment of time and money, perhaps mixed with a dash of management competence. Accomplishing these tasks will undoubtedly enable managers to provide high-quality service and develop closer relationships with clients. But, to develop a sustainable competitive advantage through superior client service requires something more. It requires a culture of service understood and implemented across the entire service team. More specifically, it requires that the service team is empowered to avoid bureaucracy to solve issues as they arise and proactively reach out to clients to bolster relationships.

It's inevitable that every client relationship will encounter an issue or problem along the way that requires resolution. The managers receiving the highest ratings for problem

resolution skills, the third leading driver of client satisfaction, are able to turn these potentially damaging occasions into opportunities to strengthen relationships. The most obvious effort these firms take to improve problem resolution skills include training the client service team to spot potential problem situations, developing model responses to resolving predictable problems, and systematically tracking response times (the ninth leading driver of satisfaction). Additionally, reviewing problem escalation procedures is a relatively common approach to sidestepping bureaucracy. However, several of the top-performing firms make a special effort to publicly recognize individuals identifying novel approaches to solve client issues, even if they are not entirely successful. Conveying to employees that innovation is celebrated, not reprimanded, will spur additional efforts that will not go unnoticed by clients.

For good or bad, institutional investors tend to use the level of contact frequency with their client service representative as a proxy for the value placed on their business. For this reason, the frequency of contact of the client service representative is the fourth leading driver of satisfaction. As we examined the top-performing firms in this area, there was a clear, noticeable difference between leading managers and everybody else. The difference revolves around the level of proactive communication clients receive from their service representative. Top-performing firms have successfully motivated their service teams to habitually e-mail, call, and visit clients to inform them of new developments or educate them on market and portfolio events. These managers develop relationships across clients' organizations and eventually become viewed as partners rather than vendors.

An All-Weather Service Platform

Differentiating through superior client service is clearly no easy task. It's probably even more difficult than achieving top quartile performance next quarter. But, perhaps unlike investment performance, developing a competitive advantage through high-quality client service is entirely within your control. Connecting the repeatable processes implemented by top-performing firms – knowing your clients, shaping perceptions through disciplined communications, and empowering the service team – into your business will establish a client service platform that stands out from the crowd no matter which direction the markets decide to take.