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Metrics for the Business

Applying metrics to operational processes, cost analysis and technology has been standard operating procedure in many industries for years. These calculations and measurements enable firms to quantify operational activity, identify risk and make informed decisions. Many asset managers are now realizing that metric analysis is an invaluable tool for optimizing their business, reducing costs and delivering added value. It is therefore no surprise that 'Metrics for the Business' emerged on top in CutterResearch's member voting, for topics to be reviewed at our 2012 November meetings.

Asset managers certainly aren't strangers to metrics. After all, quantitative investment strategies, analytics, attribution, and a host of other sophisticated calculations have been embedded within the investment process for years. But mature and robust programs that apply metrics to operations and technology are not broadly embraced across the industry. Many firms cite the struggle to identify the proper metrics, limited resources, and the inability to derive value from the results, as the main deterrents from establishing such programs. In addition, reaching a consensus on how to segment costs and operational functions can be extremely difficult, especially in large asset management firms with multiple lines of business and complex operating models. But nobody said it would be easy and the benefits of objectively assessing operations and corporate performance seem to outweigh any roadblocks that firms may encounter.

As a result, **CutterResearch** is conducting a detailed examination of how metrics are used in the asset management industry. Despite the fact that the study is in the early stages, we have uncovered a number of best practices and success stories that aim to further embed metric-based analysis. Techniques for aligning metrics, creating metrics with actionable results and focusing employees on key metrics within their control, are just a few of the valuable insights that firms have shared. Some managers have also made great strides to distill the number of metrics they are using, in an effort to focus on the critical figures that truly drive their business.

Going forward, firms must have a finger on the pulse of their organization - metrics are an important part of this process.

For the purpose of this research, we have segmented metrics using the eight categories outlined below. There are certainly other logical segmentations, but the key is to develop categories that give both a granular and holistic view of the firm:

- **Corporate & Financial** (AUM based, asset mix, unit cost, etc.)
- **Operations** (KPIs, SLAs, etc.)
- **Risk & Compliance** (claims/compensation, failed trades, etc.)
- **Technology** (system availability, processing windows, report delivery, etc.)
- **Client** (profitability, revenue by client, churn rate, etc.)
- **Product** (profitability, margin, market share, etc.)
- **Headcount & Resource** (turnover, compensation, by department/function, etc.)
- **Third Party** (vendor, supplier, SLAs, etc.)

Metrics are not 'the be all and end all' when it comes to company and operational performance, but they are an important business management tool that becomes more valuable when properly segmented. Our report will focus on operations and technology, but will also touch on other metric categories when appropriate and insightful.

Ultimately, firms will assess their metric program based on whether or not it is adding value to the firm, which underscores the importance of developing proper calculations. As you might expect, arbitrarily capturing a laundry list of metrics is not best practice - less is in fact more. And while there are certainly metrics that every investment manager should capture, such as trade volumes and failure rates, it is equally as important to ensure that metrics are aligned with business strategy, financial targets and company goals. Metrics communicate organizational values and priorities, so the first step in any successful program is to align the measurements with what the firm is trying to accomplish. For example, if an asset manager is trying to improve customer satisfaction, then client reporting errors and speed of delivery might be two metrics that the firm decides to capture. Additionally, if a firm is growing AUM but not realizing a corresponding rise in profitability, the firm may decide to calculate client specific cost metrics in order to identify their most profitable accounts. In both scenarios, metrics are a tool to measure progress toward company goals and objectives.

Finally, it is important to note that metric programs do not always receive a significant investment in people or technology. They are often a function of what firms can afford, as opposed to what is actually required. Consequently, many

firms leverage their existing systems and use in-house tools to capture and present the information, which adds to the challenge of creating a robust metric program. That said, the industry is certainly placing a premium on fact based analysis, process improvement and efficiency. And while we have seen varying levels of maturity across our membership of over 200 buy-side asset managers, the enthusiasm around this topic illustrates that metrics are top of mind for many firms. **Our November Research report, which in addition to capturing the industry dynamics, will provide a catalogue of critical metrics and a comprehensive overview of best practices and case studies from firms who have already implemented rigorous programs.**

"My metrics program met a lot of resistance at first, as people thought I was bringing big corporate tactics to a firm that prided itself on being nimble and entrepreneurial. But metrics are a great mechanism to communicate organizational goals and priorities. People quickly realized that."

*Chief Operating Officer
CutterResearch Member Firm*

"Some of the supporting technologies are really expensive, so we had to figure out how to capture and present metrics using the tools we had in-house."

*Head of Management Reporting
CutterResearch Member Firm*

