CONTENTSTREET

PROVIDER ANALYTICS

a guide for asset managers

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June 2020

INTRODUCTION

Now that the MiFID II rules have been in place for a few years, and a certain discipline has been established around research unbundling, there is general agreement that the research evaluation process in the industry has improved, and is now more transparent and less ad hoc. Nevertheless, it seems clear that most asset managers still don't have a complete picture of their research relationships. This is partly because the data currently available to asset managers is incomplete, and of low quality, and partly because asset managers do not have in place the kind of rigorous data analytics process that would help them better understand these relationships. Vendor (Provider) Analytics programs are standard practice in other industries, and asset managers could certainly benefit from this as well.

Asset managers will continue to feel pressure to maximize the value of their research relationships, and to do so, the evaluation process will have to continue to evolve and improve. At the very least, asset managers should consider putting in place a more data-intensive, analytical process so that they get more out of the data that they already have, even if it is incomplete. As a second step, asset managers should consider market solutions that will help them collect more high-quality data. Taken together, these process improvements should help asset managers uncover valuable insights and help them get more value out of their research relationships.

WHAT IS PROVIDER ANALYTICS?

Provider Analytics is the formal practice of collecting, organizing and analyzing research consumption data to help asset managers better understand the value of their research relationships. This practice, which is data-intensive and analytical in nature, is intended to support and improve (but not replace) the more traditional evaluation process used by most asset managers today.

A Provider Analytics solution should be designed to answer the who, what, when, where and why of research expenditures:

What types of services do we use?

How often do we use these services?

Who is using these services?

How much are we paying for these services?

Who are we paying for these services?

Who is delivering these services (analyst, sales, trader)?

What is the quality of these services?

Are we over-paying or under-paying certain Providers?

Are we over-utilizing or under-utilizing some Providers?

Are we getting the most bang for our research buck?

IMPLEMENTING PROVIDER ANALYTICS

While the implementation of a Provider Analytics practice is straightforward, it does require a change in mind-set, and an organizational commitment to incorporate a more data-driven and analytical approach into the research evaluation process. This means collecting higher-quality data, and adopting a few modern technology tools, like a Business Intelligence (BI) solution, which has the kind of advanced data modelling, analytical and collaboration tools necessary for an enterprise solution.

THE DATA

A value-based Provider Analytics solution begins with high-quality, timely data that is both quantitative and qualitative in nature. This data should be deeply tagged (by report, interaction type, sector, company, regions, country, etc.), allowing for more detailed category analysis. In addition, the data should be tagged in such a way that allows asset managers to identify who is consuming the service and who is delivering it. And finally, the data should be available in multiple dimensions, to allow for a proper value-based analysis. For research services (interactions), this would include service level (# of interactions); quality of service (rating or vote); and the cost of the service ($). For research reports (depending on the tools available), this would include not just clicks, but unique reports clicked, not-clicked, reads, unique reads, not-read, bookmarks, shares and ratings, all of which signal that some value was added.

Currently, most asset managers depend on their Providers for their research consumption data, and typically, the data comes in the form of raw 'click' and 'count' data. While useful, this data is low-quality and incomplete. To begin with, the data does not differentiate between those engagements that actually added value and those that did not. For example, just because you clicked on a report doesn't mean that you actually read it, and just because you read a report doesn't mean that it actually added value; these nuances are currently not captured in the data. Interactions data has the same limitations: asset managers know from the 'count' data how many analyst calls they had and how many conferences they attended, but they don't know which ones added value and which ones did not. What this means is that the raw data currently used in the evaluation process has an inherent positive bias embedded in it, as all 'clicks' and all 'counts' are by default assumed to have been value-additive. In addition, the data available to asset managers notably does not include 'not clicked' data; that is, reports received but not clicked. This represents an important blind spot for asset managers, given what we know about low click rates in the industry.

The challenge for asset managers at this point is how to capture higher-quality and more complete data within the existing workflow. Part of the problem is that the research space still relies on pre-MiFID II workflows and tools that don't serve the post-

MiFID II requirements of asset managers. When it comes to research reports, for example, the primary distribution channel, surprisingly, remains email, and this presents asset managers with a number of challenges. For example, this means that email inboxes remain full, and that research reports go largely 'undiscovered' and unread. To be clear, it is not necessarily the case that investment professionals are intentionally passing over these reports; what is happening instead is that these reports are literally getting lost in the clutter. There is no hard data on this, but the general consensus is that less than 5% of reports are ever opened, and this represents an enormous amount of value leakage for both asset managers and for Providers. The other challenge is that email 'click' and 'open' data is notoriously 'noisy' and unreliable because email tracking tools generate a lot of false positives, indicating that reports have been opened when they have not.

In short, asset managers still rely on incomplete and low-quality data as inputs into their research evaluation process, and this leaves them with an incomplete picture of their research relationships. Tools that can help asset managers collect higher-quality data are beginning to emerge in the market and would address this problem.

BUSINESS INTELLIGENCE

Notwithstanding the lack of high-quality data, asset managers are still not extracting as much value as they could from the data they do have because they are not employing more advanced data analytics. The good news is that the investment required to add this capability is relatively modest. MS Excel is still the go-to tool for analysis within organizations and is still very useful for certain kinds of ad hoc analyses. However, a commercial Business Intelligence (BI) tool has more advanced capabilities, and can take an analytical process to the next level. There are dozens of BI tools available in the market today, and the best ones are secure, affordable, and easy to adopt.

Data prep - Asset managers typically rely on multiple sources for their research consumption data, and it typically comes in multiple different formats. This means that every quarter, the data needs to be imported, aggregated and scrubbed before it can be reported on, analyzed and shared within the organization. In Excel, this is a largely

manual process that is time-consuming and prone to error. A BI tool on the other hand can effectively automate this entire process so that it becomes seamless; BI tools can facilitate direct connections to multiple data sources, automate the refresh process, transform and model the data, and then publish the data to reports and dashboards, all in real-time.

Single version of the truth - When working in Excel, it is often difficult to keep track of the data and its version history, especially when the team consists of more than one analyst. BI tools, on the other hand, allow users to manage a central data source to ensure that the data is consistent across the organization, and that all reports and dashboards are pulling from one data source.

Analytics - BI tools are ideal for the kind of data exploration exercises and analytical deep-dives that are most likely to lead to real insights. BI tools usually have powerful interaction features that allow analysts to slice and dice the data in a thousand different ways, and to drill down and drill through the data in order to discover hidden relationships. At the same time, BI tools are both robust and simple to use, so that end users do not require a technical background to get the most out of them, significantly reducing a potential barrier to adoption.

Publishing and collaboration - BI tools are by far the best way to publish and communicate analytical insights to stakeholder groups within an organization. Reports and dashboards can usually be designed within the BI authoring platform itself, and then either shared on-line, so that end-users can interact with the reports directly, or exported into a hard-copy presentation format. Reports can also be customized for different audiences within an organization.

THE ANALYTICAL FRAMEWORK

With high quality, deeply tagged data, and a good analytical tool, the types of analyses that can be performed within a Provider Analytics practice is limitless. Here is what an analytical framework might look like for interactions and research reports:

INTERACTIONS

KPIs:

- # of Providers
- # of interactions
- $ spend on interactions vs. Budget
- Avg. interaction rating

Most valuable Providers ($, #, rating), with drilldown by interaction type, sector, company, region, country, analyst/sales/trading, Investment Professional

Most valuable Analysts ($, #, rating), with drilldown by: Provider, interaction type, sector, company, country, region, Investment Professional

Interaction type analysis ($, #, rating), with drilldown by: Provider, analyst/sales/trading, sector, company, region, country, Investment Professional

Sector, company, regions, country analysis ($, #, rating), with drilldown by: Provider, analyst/sales/trading, interaction type, Investment Professional

Ratings Analysis, with drilldown by: Provider, analyst/sales/trading, interaction type, Investment Professional

Provider deep dive

Analyst deep-dive

Interaction type deep dive

Sector, company, regions, country deep dive

Investment Professional deep-dive

Trends over time: MoM, QoQ, YoY

Actuals vs Previous

Average, Median, Standard deviation

Pricing vs. Quality Analysis

Pareto analysis (identify the top Providers that represent 80% of spend, and the tail)

Cluster analysis

Segment analysis

THE ANALYTICAL FRAMEWORK (continued)

RESEARCH REPORTS

KPIs:

# of Providers
# of published reports
clicks, unique reports clicked, reports not clicked
% clicked, not clicked
# reads, unique reports read, reports not read
% read, not read
# bookmarks, shares, prints, ratings
Ratings

Most valuable Providers (#, %, rating), with drilldown by report type, sector, company, region, country, analyst, Investment Professional

Most valuable Analysts (#, %, rating), with drilldown by: Provider, report type, sector, company, country, region, Investment Professional

Report type analysis (#, %, rating), with drilldown by: Provider, analyst, sector, company, region, country, Investment Professional

Sector, company, regions, country analysis (#, %, rating), with drilldown by: Provider, analyst, report type, Investment Professional

Ratings Analysis, with drilldown by: Provider, analyst, report type, Investment Professional

Provider deep dive

Analyst deep-dive

Report type deep dive

Sector, company, regions, country deep dive

Investment Professional deep-dive

Trends over time: MoM, QoQ, YoY

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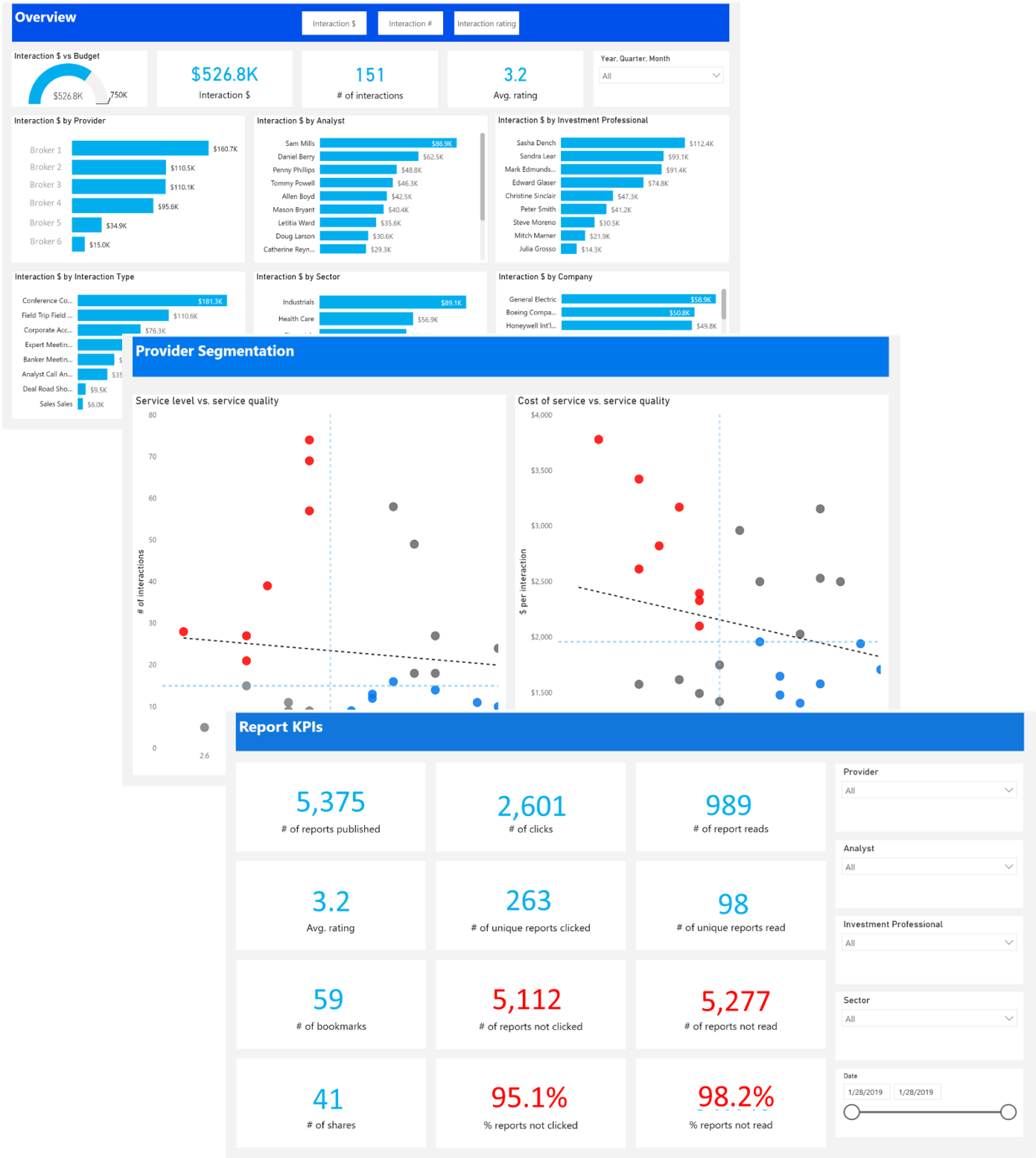
Average, Median, Standard deviation

Pareto analysis (identify the top Providers that represent 80% of spend, and the tail)

Cluster analysis

Segment analysis

SAMPLE REPORTS AND DASHBOARDS



WHY EMPLOY ADVANCED PROVIDER ANALYTICS

A formal Provider Analytics discipline can help asset managers in a number of ways.

To begin with, a Provider Analytics process can help asset managers identify research that adds value and research that does not. To state the obvious, ***not all research is created equal***, but the fact is that asset managers are not systematically differentiating between high-quality research and low-quality research as part of their evaluation process. At the same time, while there is lots of talk in the industry about 'research spam', little is being done to actually identify the spam so it can be weeded out, or to quantify the spam so it can be discounted. It is a truism that 'you can't manage what you can't measure', and the fact that asset managers aren't systematically capturing qualitative metrics in the data leaves a gap in the evaluation process, and means they are probably leaving money on the table.

Once asset managers have a way of identifying research that is adding value (or not), it becomes easier to assign a price to it. This can be done in the context of a disciplined pay-for-value pricing framework, where the relationship between research quality and research payments is transparent and explicit. The purpose of this kind of framework isn't just to help asset managers save money (although this is important); it can also help asset managers identify Providers that may be over-paid or under-paid, and over-used or under-used, so that payment levels and utilization levels can be adjusted accordingly. A Provider Analytics solution can help them do this.

The dataset developed under this kind of framework can then be used to support asset managers in their negotiations with Providers. To the extent they come to the table prepared with high-quality data that details Provider performance across key categories and metrics, asset managers will have a better foundation on which to negotiate. In addition, to the extent asset managers are willing to share some of this data back to their Providers, this could serve as a powerful feedback tool to help Providers improve their products and services and target them more closely to research needs.

A Provider analytics solution can also be used as a formal research procurement tool, to help investment professionals identify the best resources for specific research needs. It would allow investment professionals to identify, for example, the best resource to organize a fact-finding trip to China, or the go-to analyst in the Financial Institutions sector, or the firm who puts on the best conferences.

And last but not least, data analytics can support the traditional research evaluation approach by de-personalizing part of the process. Research is largely a relationship business, where investment professionals engage with research professionals. This means that the evaluation process is often heavily influenced by human interaction factors that aren't always correlated with research quality. At the end of the day, Provider evaluation should be supported, at least in part, by pure data.

CONCLUSION

Asset managers interested in improving their research evaluation process and extracting more value from their research relationships should consider implementing a more formal Provider Analytics practice. This would involve at the very least implementing a more sophisticated data analytics process so that they get more value out of the data that they have, even if its incomplete. To take it to the next level, asset managers should consider a market solution that allows them to generate more high-quality data. The potential added value from this kind of discipline is significant, and the investment required to do so is modest.

For more information about implementing a Provider Analytics practice, please contact ContentStreet:

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