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Resurgence in direct sales of investment trusts

Mitsuo Fujimoto

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Executive Summary



Mitsuo Fujimoto

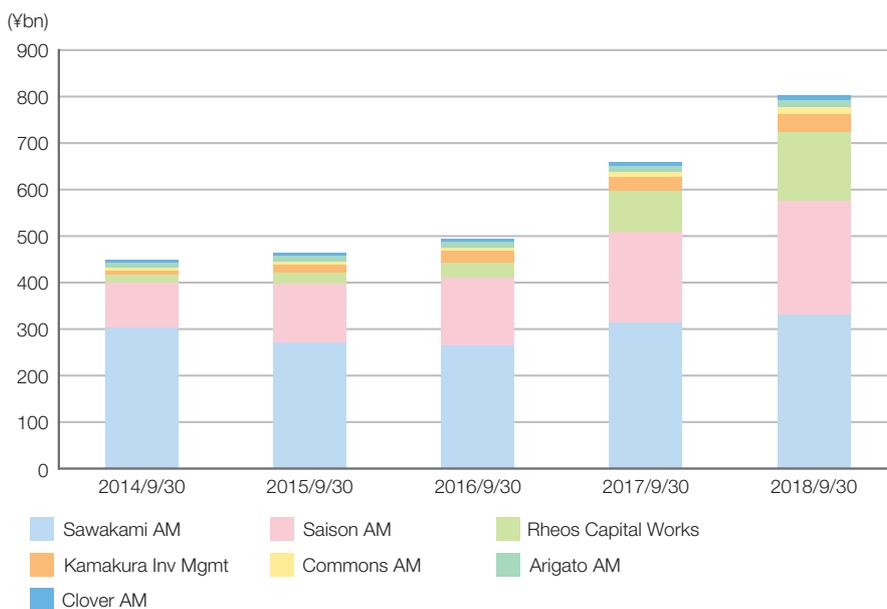
Senior System Consultant
 Asset Management Systems
 Business Department

Japanese asset management companies that sell their funds through distributors are starting to return to the direct sales channel. Their direct sales initiatives are targeted at younger demographics such as recent college graduates, but capturing young customers is not easy. It requires customer journey mapping and micro-targeted marketing through such means as social media advertising, telephone contacts with customers and educational seminars.

Direct investment-trust sales regaining favor among asset managers

Japanese asset management companies (AMCs) are increasingly looking to sell public investment trusts directly to investors without going through distributors. Direct investment-trust sales were widespread back in the 1990s before being curtailed around 2000 because revenues from direct sales were insufficient to cover the costs of mailing prospectuses, account statements and other documents to and fielding inquiries from customers. In recent years, the main players in the direct sales channel have been independent AMCs (Exhibit 1), but more mainstream AMCs are now also getting into direct sales.

Exhibit 1: Major direct investment trust families' net AUM



Source: NRI, based on company disclosures

The primary driver behind AMC's renewed interest in direct sales is the prospect of gaining insights into customers' preferences and investment behavior through direct contact with customers and applying those insights to product development. Another aim of direct sales is to broaden investment trust ownership to younger generations.

The advantage of the direct sales channel is that it enables AMCs to inexpensively provide investment trusts to consumers by eliminating the sales fees they would otherwise pay to fund distributors.

However, capturing young customers is not easy for AMCs. With the direct sales channel being mostly online nowadays, AMCs have to develop and provide platforms for their customers to open accounts and purchase and redeem investment trusts online.

Additionally, AMCs seeking to expand the investment trust market by targeting younger demographics such as recent college graduates must have patience for two reasons. First, young people are hard for AMCs to reach. Second, they typically know little if anything about investment trusts and therefore need to be educated before they are ready to make their first investment trust purchase.

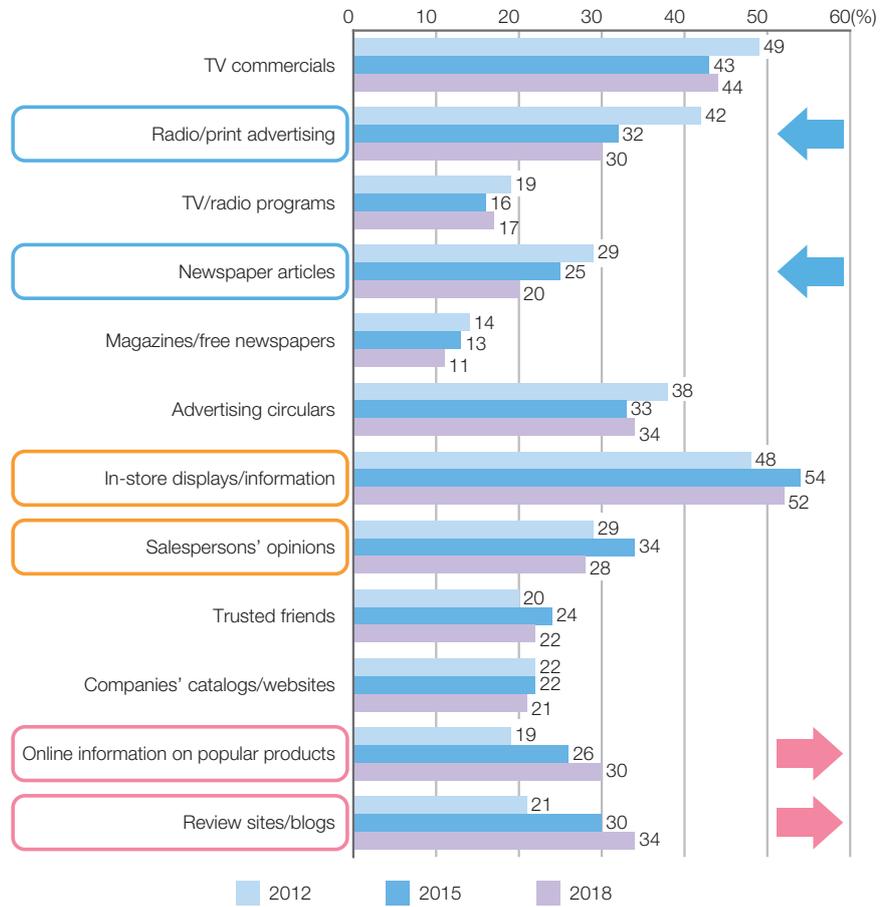
What it takes to reach the digital generation

If AMCs target the so-called digital generation who are now in their 20s and 30s as prospective investment trust customers, they would have to tailor their marketing to the digital generation's distinctive buying habits.

One of the most important sources of information currently used by consumers for making shopping decisions is feedback from peers (Exhibit 2). How consumers obtain such feedback differs among different generations, but consumers in their 20s tend to strongly prefer social media (e.g., Twitter, Instagram, Line, TikTok) over comparison sites as information sources. They tend to also shy away from consulting with experts or professionals in whatever market they are shopping.

Accordingly, for an AMC to reach the digital generation, it must build online "rails," starting with advertorial content on social media platforms, that guide young aspiring investors through the process of learning about investment trusts and ultimately opening an account with the AMC. This process often involves customer

Exhibit 2: Information sources consumers use when shopping for products/services



Source: NRI Survey of 10,000 Japanese Consumers (2012, 2015 and 2018)

journey mapping, whereby an AMC defines a model customer to whom it wants to sell its products, deconstructs the model customer's behavior into sequential steps and maps out how their behavior and psychology evolves over the course of those steps.

In other words, a customer journey map is a means of reframing a model customer's behavior as a series of discrete behavioral processes and diagrammatically visualizing the customer's needs. In that way, AMC can identify how to specifically respond to those needs to win over the customer. This approach is analogous to laying a virtual path that leads the customer to the AMC. If this path is incomplete, potential customers would be more prone to go astray before reaching the intended destination. In such an event, the AMC would not earn an adequate return on its advertising spend.

Keys to success in direct investment-trust sales

One characteristic of AMCs that have succeeded in direct investment-trust sales, in addition to delivering satisfactory investment performance, is that they effectively convey the message that they are the customer's partner in long-term wealth-building. They get this message across by building deep relationships with customers through human contact, including follow-up phone calls and live seminars, instead of interfacing with customers solely through their websites and/or email.

In sum, the fundamental keys to success in direct investment-trust sales include

1. reaching target demographics through social media content (e.g., advertorials),
2. using techniques such as customer journey mapping to build a virtual path that leads potential customers to start buying investment trusts and
3. communicating with customers through such means as seminars and personalized phone calls while they are in the process of opening accounts and buying or selling investment trusts.

NOTE

1) KDDI

2) Marui

3) Culture Convenience Club (T Points)

Recently, a telecom carrier¹⁾ has entered the asset management business while a retailer²⁾ and loyalty point platform³⁾ have started selling investment trusts. These new entrants are seen as better positioned to reach younger consumers than incumbent AMCs are.

It is, however, expected that even AMCs that enter the direct sales channel can differentiate themselves from diverse rivals by deepening their communication with customers and appealing as wealth-building partners.

Additionally, AMCs will have an option to use various Internet services and outsource operations such as customer service and/or customer accounts administration.

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Inquiries to : Financial Market & Innovation Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

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