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The Differentiation Challenge

— how to stand out in a crowded market: five winning strategies for asset managers

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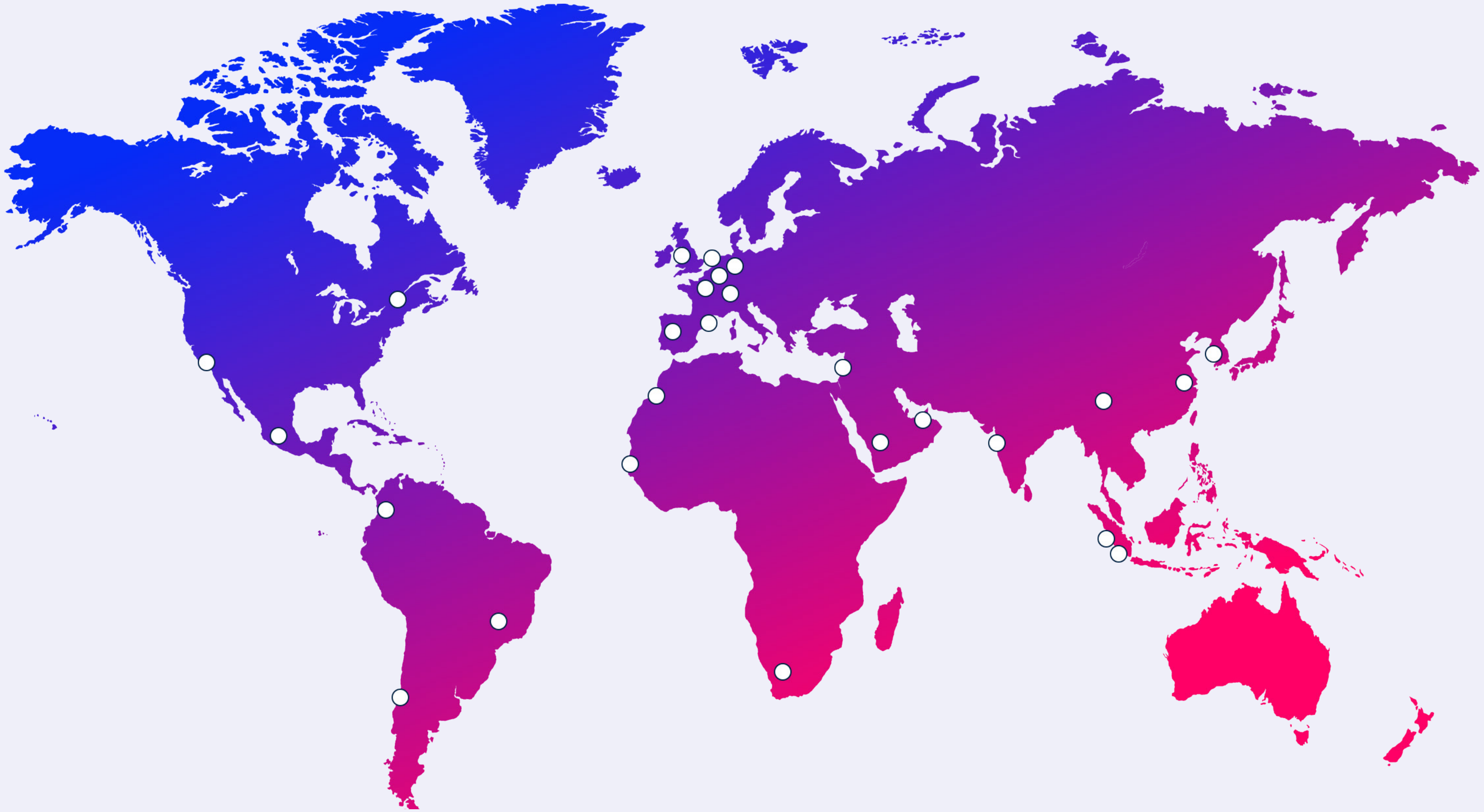
23
COUNTRIES

1700
EMPLOYEES

+1000
CLIENTS



Artefact is a global leader in consulting services, specialized in data transformation and data & digital marketing, from strategy to the deployment of AI solutions. We are offering a unique combination of innovation (Art) and data science (Fact).

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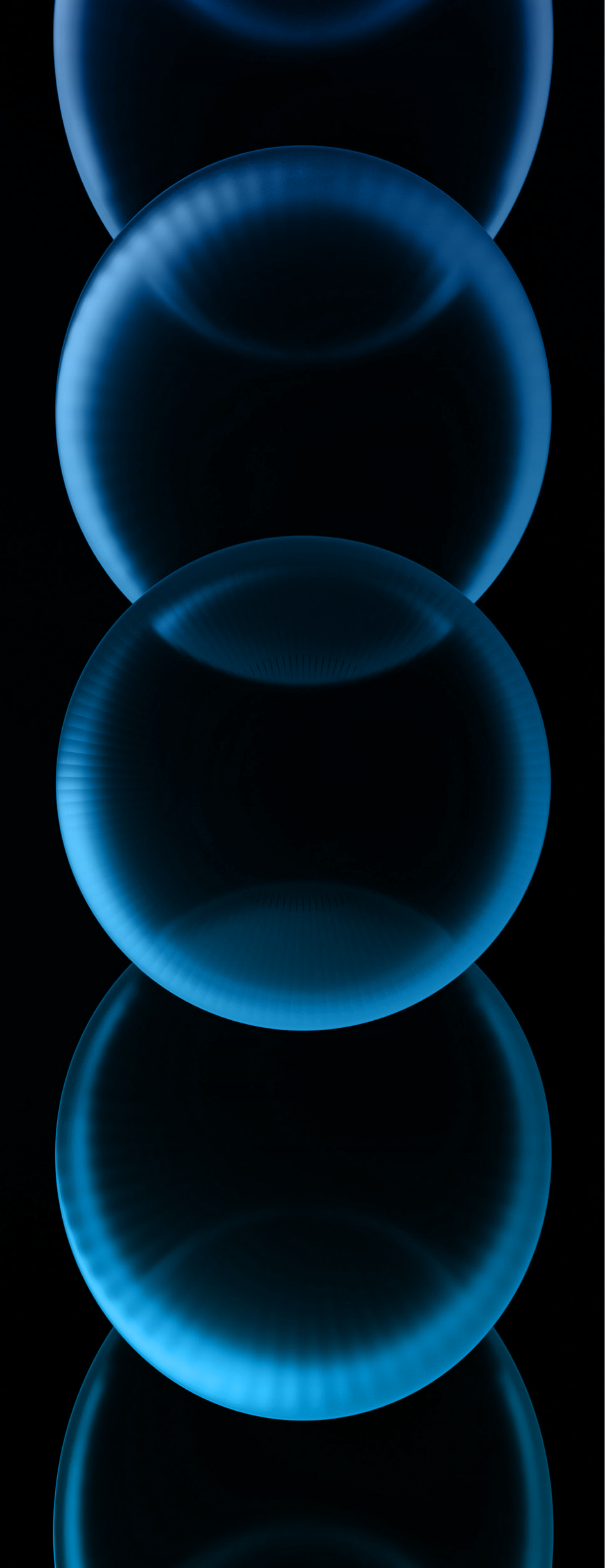
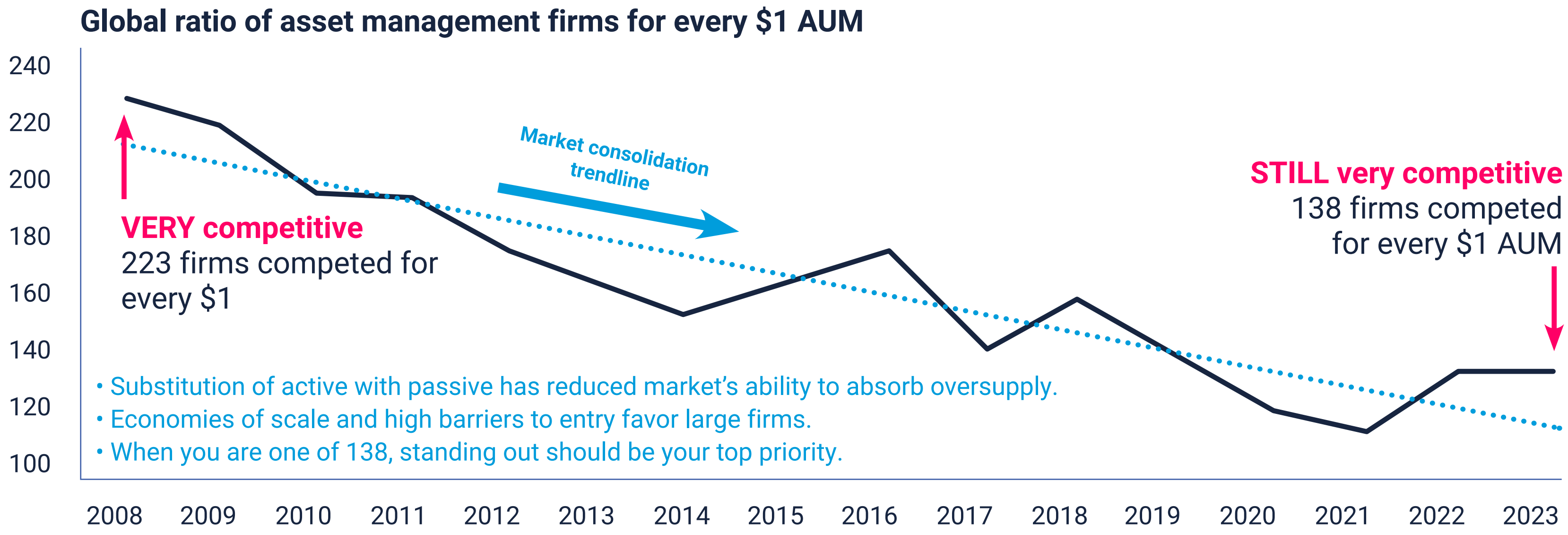


Table of Contents

In brief

The asset management industry remains intensely competitive, and firms that fail to differentiate are disappearing. Previous differentiators have become ‘table stakes,’ requiring firms to adopt additional strategies. How to stand out? This article outlines 5 winning strategies for standing out, a decision-making framework, and implementation roadmaps. It also explains why one winning differentiator – AI-driven client experience (CX) – is set to become the next ‘table stake’. Contact us if you’d like to learn how to differentiate and future-proof your firm.

Asset managers who fail to differentiate are disappearing



Intense industry competition – according to BCG[1], the industry saw a 3.5% compound annual growth rate (CAGR) in the five years to 2023. Meanwhile, according to Accomplish's analysis above, the number of asset managers continued to shrink, with only 138 firms competing for every $1 AUM, compared to 223 in 2008[2]. As a result, rivalry in the global asset management industry remains intense, with the market consolidation trendline providing clear evidence of what happens to those who fail to achieve a winning position.

Well-documented reasons – passive funds have substituted much of the active investment business' market share, reducing the market's ability to absorb oversupply. Specifically, between 2008 and 2023, 85% of active fund managers underperformed their benchmarks while (as a proxy) the proportion of US equity assets held in passive funds doubled from 25% to >50%. Meanwhile, economies of scale and regulatory barriers to entry have favored large firms.

How to stand out, strategically? When you are one of 138, standing out from the crowd should be your top priority. Merely doing the same as everyone else may not secure a long-term position. But how can you differentiate in a way that will provide a reliable source of long-term competitive advantage?

1: bcg.com (2023) Global asset management report.
2: Total global AUM: BCG (2023). Number of registered asset management firms in main markets (excl financial advisors): US SEC IAPD, EU's ESMA, UK's FCA, China's CSRC, Asian Asset Management reports (Japan, Hong Kong, Singapore). **Supporting sources for context and cross-verification:** US ICI, Preqin, and PwC.

The future is safer for those who provide more than just ‘table stakes’

Common differentiation strategies evaluated – to understand what sets firms apart, we compared 8 differentiation strategies in the table below against 3 factors: client centricity, real value, and avoiding direct competition. These factors are the principles shared by each of the most cited and timeless theories of differentiation.

Our goal was to identify the most reliable ways of standing out, and our findings indicate a new distinction between ‘table stakes’ (effectively the mandatory features of operating in the market) and ‘effective differentiation strategies’.

	Table stakes			Effective differentiation strategies
Common differentiation strategies in asset management	1 **Investment performance**	2 **Thought leadership and brand**	3 **Low-cost leadership**	4 **M&A and partnerships**
Be client centric				
Provide real value			√	
Avoid direct competition				
How the strategy works	Plan for superior future returns through unique processes and skilled managers.	Publish research and influencing markets through insights and eye-catching content designs.	Compete on price by offering low-fee funds or zero-commission trading.	Large firms can acquire smaller or weaker players. Smaller firms can access advanced technology by partnering with fintechs.
Example	Many hedge funds and active managers, but most struggle to beat passive indexes.	Thought leadership content. Annual letters to investors. Innovative marketing strategies.	Vanguard’s ownership structure forced the industry to lower fund fees.	Franklin Templeton’s acquisition of Legg Mason to expand its active management portfolio. Invesco’s acquisition of Oppenheimer Funds boosted Invesco’s presence in high-net-worth and institutional client segments.
Reliability, controllability, and predictability	**Low** – performance is hard to control and identify in advance; regulations limit marketing impact.	**Medium** – builds trust, but many firms do this, making it hard to stand out. And uncontrollable events can conspire against you.	**Medium** – fee compression benefits investors, but this is a mature trend that does not have limitless potential for long-term differentiation.	**Medium** – diversify your product range and spread shared costs across a larger asset base. However, successful integration can be disruptive, and differentiation is not guaranteed.

	Effective differentiation strategies			
Common differentiation strategies in asset management	**5 Specialize in a niche**	**6 Proprietary technology and data-driven investing**	**7 High-touch client experience (CX)**	**8 Offer a complementary service**
Be client centric			√	√
Provide real value		√	√	√
Avoid direct competition	√	√	√	√
How the strategy works	Focus on a specific asset class, strategy, or clientele (e.g. ESG, private credit, emerging markets).	Use AI, data-driven investing, and emerging technologies like tokenization to make superior investment decisions.	Use AI-driven personalization tools to provide a memorable 'white glove' service that makes clients feel special and flexes to meet their different needs.	Go beyond investment performance by offering add-on services that solve extra client problems.
Example	PIMCO dominates fixed income investing, while firms like IFM focus on infrastructure and Baillie Gifford on growth investing.	Renaissance Technologies' Medallion Fund has a long history of outperforming returns. Fidelity Digital Assets and Hamilton Lane are leveraging blockchain to tokenize private equity.	Goldman Sachs Private Wealth's bespoke investment solutions.	BlackRock's Aladdin risk management and investment platform.
Reliability, controllability, and predictability	**High** – avoids direct competition and builds authority in a specific area. The changeable nature of asset allocation adds risk.	**High** – but only if truly differentiated – many firms claim to do this, but only a few have a real edge.	**High** – works well for institutions and HNW investors and, since AI, it is no longer expensive or hard to offer at scale.	**High** – if you can solve a major client pain point.

Table stakes are not enough – decades of over-supply of products into the global market has commoditized a lot of investment performance and forced most firms into becoming price-takers. This has reduced the reliability of previous differentiators like investment performance (#1) and pricing (#3) to the point that, alone, they are no longer enough. Similarly, while thought leadership and brand (#2) are essential, they are not reliable long-term differentiators because it is hard for clients to know who to listen to about the future and the nature of marketing is more short-term.

Effective differentiation strategies are deliberate choices to stand out, either about what you do or how you do it. Effective strategies relating to what you do include acquiring another firm to broaden your product range (#4), being a niche specialist (#5) or offering a complementary service (#8). How you do it includes proprietary investment decision-making technology (#6) or a high-touch CX (#7). Crucially, you can choose more than one because they cover these two categories.

Risks of not differentiating – before we explore which winning strategy is right for you, what will happen to those who fail to differentiate?

- **Firms** that place their reliance on investment performance risk further margin shrinkage if it goes wrong, followed by talent losses as key staff migrate to better-positioned firms that can cover higher fixed costs. This could risk client losses that, in turn, trigger strategy concentration and viability issues. For real-world examples, see Janus Capital or Legg Mason.

- **Employees** will face career shifts as demand rises for AI specialists in quantitative investing, data-driven risk analysts, and client experience professionals. These new career paths will be an opportunity for many, e.g. JPMorgan's investment in AI training, but individuals who cannot adapt may face career stagnation or job loss.

How to stand out?
Choosing the right differentiation strategies

Start by evaluating your 'table stakes' – each of these differentiation strategies offers a unique path to standing out in a crowded market. However, you must align your choice with your internal strengths, client base, and long-term vision. To help you choose, the decision table below encourages you to start your analysis by evaluating your 'table stakes'. Don't overlook this step because your current position will affect the availability and feasibility of different options.

Factors to consider – we then identify 7 factors: target market fit, competitive landscape, internal capabilities, investment and cost considerations, scalability, barriers to adoption, and key risks. For example, smaller firms may benefit from niche specialization (#5) or a high-touch client experience (#7). Technology-driven firms should consider proprietary AI & data (#6). While large institutions serving complex client needs can differentiate by getting even bigger (#4) and offering complementary services (#8).

1. Investment performance
2. Thought leadership and brand
3. Low-cost leadership

FOCUS ON THE EFFECTIVE DIFFERENTIATION STRATEGIES

4. M&A and partnerships
5. Specialize in a niche
6. Proprietary technology and data-driven investing
7. High-touch client experience
8. Offer a complementary service

CX: the 'table stake' of the future?

The reason a high-touch CX is even a differentiation strategy relates to the fact that, until recently, it was not scalable, being largely driven by human interventions and customizations. This made it expensive and, therefore, a less common strategy. However, AI has changed this, making what is currently superior CX cheaper as AI increases your ability to manage complexity. Crucially, this strategy that applies to all asset classes and can be combined with other methods of differentiation. It is also entirely under your control, and clients know this, meaning that anything less than excellent CX will count against you in the future. As a result, we believe that AI-driven CX is set to become the next 'table stake': what currently classes as outperforming CX will become the norm. We recommend you factor this into your decision-making.

EFFECTIVE DIFFERENTIATION STRATEGY

4 M&A and partnerships

Start by evaluating your status quo

Do you have the operational strength and financial resources to acquire or partner with another firm? If not, should you instead seek a joint venture or strategic alliance?

Target market fit

Best suited for firms looking to scale quickly, expand into new asset classes, or enhance their technological capabilities.

Competitive landscape

Highly competitive; a lot of firms are trying to buy their way out of the trap of being mid-sized. Access to capital and established networks will be important.

Internal capabilities

Requires strong integration capabilities, leadership alignment, and a clear post-merger strategy.

Investment and cost considerations

High upfront costs for acquisitions, but partnerships may require lower capital outlay, e.g. seed capital. ROI depends on successful execution.

Barriers to success

Cultural misalignment, regulatory scrutiny, and paying too much, creating pressure to generate quick returns, leading to rushed decisions.

Scalability

High scalability if the integration is well-managed and leads to enhanced offerings or cost efficiencies.

Key risks

Poor integration can instigate talent flight, client withdrawals (e.g. JHI), or disrupt operations (e.g. Legg Mason's struggle to integrate systems after it bought Citi's investment division).

EFFECTIVE DIFFERENTIATION STRATEGY

5 Specialize in a niche

Start by evaluating your status quo

Build on the area that balances your most successful investment track record, your general acceptance as an authority on the topic, and your ability to maintain a fee margin.

Target market fit

Best for firms targeting a specific investor group (e.g., ESG, fixed income).

Competitive landscape

Reduces direct competition.

Internal capabilities

Requires deep industry expertise and a strong track record.

Investment and cost considerations

Focus spending on specialized research and talent.

Barriers to success

What will you do with any existing business that would be 'non-core' under this strategy?

Scalability

Medium – depends on market size and demand for the niche.

Key risks

Single point of failure: underperformance or a change in market demand could leave you exposed.

EFFECTIVE DIFFERENTIATION STRATEGY

6 Proprietary technology and data-driven investing

Start by evaluating your status quo

Where has your tech unequivocally translated into meaningful alpha? Have you published research papers on the topic? And could you demonstrate this credibility to institutional investors?

Target market fit

Ideal for quantitative and algorithmic strategies.

Competitive landscape

Highly competitive; must develop a genuine technological edge.

Internal capabilities

Demands strong data science, AI, and governance capabilities.

Investment and cost considerations

High returns will be needed to cover high initial and ongoing R&D costs. Prepare for regulatory scrutiny.

Barriers to success

What will you do with any existing business that does not easily lend itself to this style of investing?

Scalability

High – if tech solutions can scale across products.

Key risks

The rapidly changing technology landscape can make investments obsolete unless you stay up to date.

EFFECTIVE DIFFERENTIATION STRATEGY

7 High-touch client experience

Start by evaluating your status quo

Outperforming CX lengthens and deepens client engagement, so focus where client retention and cross-selling is most important to you. Show them where your CX provides real and unique value to them. Firms that master personalization will secure long-term client loyalty.

Target market fit

Best suited for institutional clients, financial advisors, and high-net-worth clients. Firms with lower-margin business models (e.g., passive funds) may struggle to justify the costs.

Competitive landscape

Entirely under your control with high differentiation potential.

Internal capabilities

Needs robust relationship management and service infrastructure.

Investment and cost considerations

Invest in client service teams and personalization technology.

Barriers to success

Data security and regulatory scrutiny will also be important concerns. Success depends on a firm's ability to integrate AI seamlessly into human interactions rather than replace them.

Scalability

High – not previously scalable, but AI has changed this and could be applied across all asset classes. Crucially, this is public knowledge.

Key risks

High client expectations evolve, so automate as much as possible.

EFFECTIVE DIFFERENTIATION STRATEGY

8 Offer a complementary service

Start by evaluating your status quo

What proprietary tech or models have you built that a client would value as an additional service? Could you use thought leadership to boost adoption? And could you provide it at a lower cost than competitors?

Target market fit

Strong fit for firms serving complex client needs (e.g., institutions or insurance companies).

Competitive landscape

High differentiation if service solves a unique client problem.

Internal capabilities

Requires investment in value-added services, e.g. risk management, reporting, or tax optimization tools.

Investment and cost considerations

Expected revenue would need to cover any initial development costs.

Barriers to success

How will you get clients to adopt the new service? Will it be a freebie, like portfolio modelling, or something they pay extra for?

Scalability

Medium – depends on the size of the client segment you target and if the complementary service integrates well into existing offerings.

Key risks

Must avoid cannibalizing core asset management offerings.

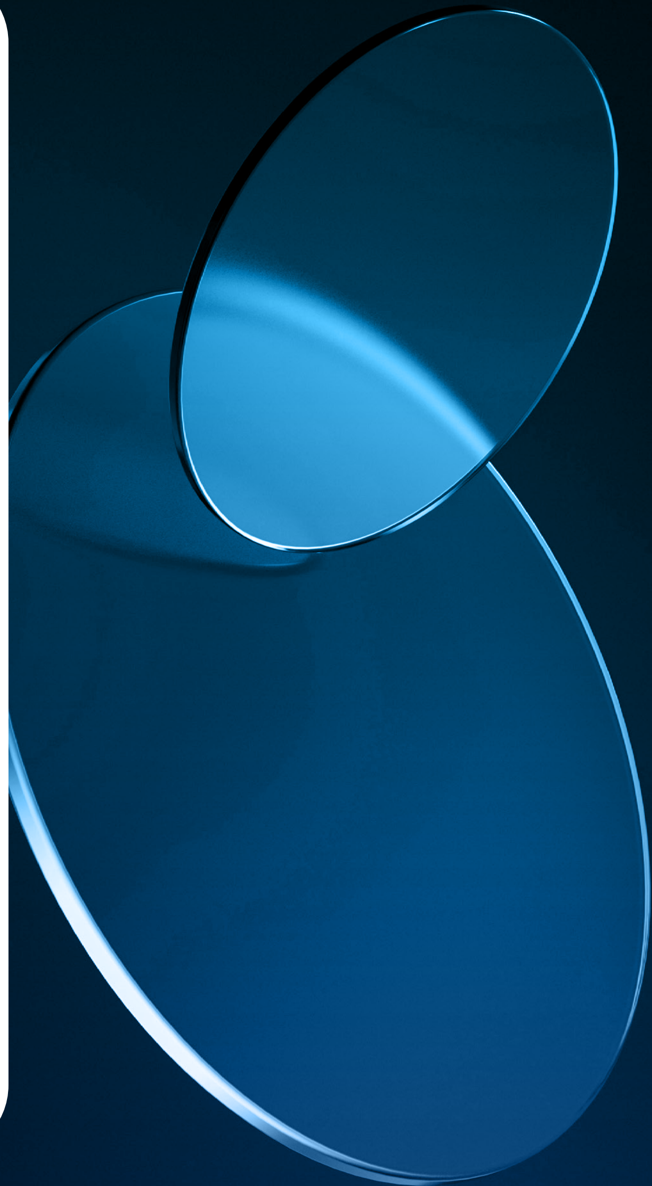
Implementation roadmaps

From strategy to action – once you've decided how to stand out, the next step is to turn your choice into action. This requires a clear implementation roadmap tailored to your strengths and market position.

To get you started, here are implementation roadmaps to tailor to your needs. They will help you assess your readiness for a particular strategy, conduct proper market research before you act, develop and implement the new capability, monitor its success, and optimize it over time.

Embark on a winning strategy today – by following these guides, you can move beyond recognizing differentiation as a necessity and start executing a winning strategy today. Why? Suppose your firm only provides 'table stakes' and has not already taken steps to differentiate. In that case, you may be relying on investment performance that is hard to control and identify in advance.

EXPLORE THE IMPLEMENTATION ROADMAPS



STRATEGY

4 M&A and partnerships

STEP 1
Assess readiness

Identify the gaps and, therefore, the capabilities, market presence, or technology the deal should provide. Assess financial resources, operational bandwidth, and leadership alignment.

STEP 2
Market research

1. Identify potential targets for strategic fit: long-term trends, regulatory considerations, and lessons learned from industry examples.
2. Assess cultural fit and identify key talent and their potential impact on succession plans.
3. Valuation and due diligence to avoid overpaying: financials, risk exposure (financial and regulatory), and operational synergies.

STEP 3
Develop and implement

Determine acquisition structure (full buyout, merger, or joint venture). Plan the integration: talent retention, technology integration, and cultural alignment. Client Communication Strategy. Secure funding and plan capital deployment efficiently. Phase the integration to reduce disruption.

STEP 4
Monitor and optimize

Define KPIs for evaluating deal success, e.g. revenue synergies, client retention, and cost savings.

5 Specialize in a niche

STEP 1
Assess readiness

Identify a niche market where you could build a strong edge and have confidence in future demand.

STEP 2
Market research

Assess each differentiation strategy as if you were entering a new market:

a. Who would be your new buyers, suppliers, regulators, and rivals?
b. How would these parties respond to your move?
c. How attractive would that future market be to you?
d. How would the move align with your brand?

STEP 3
Develop and implement

Develop specialized research capabilities, hire domain experts, and tailor investment strategies to the niche. Establish or strengthen your thought leadership.

STEP 4
Monitor and optimize

Track performance vs. generalist competitors; monitor regulatory shifts; respond early to shifts in demand.

6 Proprietary technology and data-driven investing

STEP 1
Assess readiness

Evaluate your existing AI, data science, and infrastructure; decide whether to build in-house or partner with fintech firms.

STEP 2
Market research

Assess each differentiation strategy as if you were entering a new market:

a. Who would be your new buyers, suppliers, regulators, and rivals?
b. How would these parties respond to your move?
c. How attractive would that future market be to you?
d. How would the move align with your brand?

STEP 3
Develop and implement

Invest in quantitative research teams; develop and prove proprietary models, algorithms, or AI-driven investment tools; integrate them into portfolio management processes; ensure transparency and explainability.

STEP 4
Monitor and optimize

Continuously stress-test and refine models; stay ahead of evolving regulations and ethical considerations; evaluate the broader application of your technology.

STRATEGY

7 High-touch client experience

STEP 1
Assess readiness

Segment clients based on their needs and behaviors; map out the client journey and engagement levels; identify friction points, engagement gaps, and personalization opportunities.

STEP 2
Market research

Assess each differentiation strategy as if you were entering a new market:

a. Who would be your new buyers, suppliers, regulators, and rivals?
b. How would these parties respond to your move?
c. How attractive would that future market be to you?
d. How would the move align with your brand?

STEP 3
Develop and implement

Implement AI-driven personalized marketing and content provision, automate onboarding and client service, AI-driven regulatory reporting, and improve client communication with NLP, and offer exclusive interactions, such as access to senior investors.

STEP 4
Monitor and optimize

Measure client feedback and behavioral engagement; refine and automate repetitive tasks while maintaining human interaction.

8 Offer a complementary service

STEP 1
Assess readiness

Identify a major client pain point beyond investment performance that your firm can solve; decide whether to build, buy, or collaborate.

STEP 2
Market research

Assess each differentiation strategy as if you were entering a new market:

a. Who would be your new buyers, suppliers, regulators, and rivals?
b. How would these parties respond to your move?
c. How attractive would that future market be to you?
d. How would the move align with your brand?

STEP 3
Develop and implement

Develop or acquire technology / tools and integrate them into your offering; ensure seamless integration to encourage adoption; decide whether to offer the service for free add-on or to charge for it.

STEP 4
Monitor and optimize

Track client adoption rates and revenue impact; refine features and pricing based on client needs; ensure that the service does not cannibalize your core offering.

Capitalize on Artefact's and Accomplish's strategic relationship

Asset management is a highly competitive and consolidating industry. This white paper has emphasized that standing out should be a top priority, demonstrated how it requires more than just 'table stakes', and examined 5 winning differentiation strategies.

How to stand out? Key themes have emerged:

- AI and technology are transforming both investment decision-making and high-touch CX, setting up AI-driven CX to become the next 'table stake'.
- M&A and partnerships offer a path to growth, but only with careful integration planning and strategic fit.
- Niche specialization and complementary services provide focused value and reduce direct competition, strengthening client loyalty.

As firms look to the future, the asset managers who embrace strategic differentiation and execute effectively will lead the industry forward.

By leveraging **Artefact**'s and **Accomplish**'s capabilities, firms can turn these insights into action and establish themselves as leaders in a crowded market.

This paper is part of a series showcasing the uniqueness of our strategic relationship. We hope you found it useful; here is the complete series. If you'd like any help or advice, please contact us.

#1
The Differentiation Challenge – how to stand out in a crowded market: five winning strategies for asset managers

#2
The New Dawn – AI-driven CX is set to become the next 'table stake

#3
The Vital Piece – a CX Data Maturity Framework you can adapt to capitalize on AI-driven CX

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Asset management Client Experience Services

Accomplish®

Data is valuable | Insight is vital

CX Benchmark

Convert client behavior data into actionable insights that more than pay for themselves.

CX Strategy Development

Leverage CX as a competitive differentiator to boost sales, retention, and relationship depth.

Client Engagement Optimization

Optimize your client engagement and conversion rates.

CX Governance & Accountability

Institute senior management oversight of your ongoing client experience.

CX Training & Speeches

Equip your team with the mindset and skills to embed CX excellence in daily operations.

Because actions speak louder than words

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WE OFFER END-TO-END DATA & AI SERVICES

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- Data & AI Strategy
- Data & AI organization
- Data Maturity Assessment
- Corporate Training
- Hackathons
- Data & AI Days
- GenAI Academy
- Artefact AI Summits

AI Acceleration

- AI & Gen AI Factory
- Data & AI for Operations
- AI for Customer Care
- Data & AI for Private Equity

Data Foundations & BI

- Data Governance & Management
- Data, New BI and Self Business Intelligence
- Data for Sustainability

IT & Data Platforms

- Data-centric IT
- Data Platform
- Customer Data Platforms
- Cloud Services and Certifications

Marketing Data & Digital

- Consumer Data Environment
- Measurements (MROI) & Insights
- Data Valorization & Category Management
- Data-driven Sales
- Marketing Analytics
- CX & Digital Marketing
- GMP Certified Reseller
- Media Services & Certifications

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