

## **THE IDENTIFICATION OF ISSUES RELATING TO THE MARKETING ORIENTATION OF MANAGED FUNDS**

### **1. Background and aims of project**

The Australian funds management industry is the fourth largest in the world, with over \$1 trillion in assets under management (Axis Australia, 2006). Recent industry research reports have identified a number of marketing issues as strategic drivers of firm competitiveness and profitability. Although a significant amount of finance related academic research has been undertaken in the funds management industry, there has been little work done in the area of marketing, notwithstanding that the industry spends \$3-6 billion on sales and marketing related activity per annum<sup>1</sup>. Further, despite the importance of marketing to the industry, little is known about the marketing orientation of the firms within the industry.

Marketing orientation is defined as the “organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business” (Narver and Slater 1990, p. 21). A meta analysis review of market orientation studies showed a strong and persistent correlation between marketing orientation and firm performance on all major performance indicators (Ellis, 2006).

This project should be considered a generative project, in as much as its aim is to get key players in industry to identify the key research issues relating to the marketing of financial services. Specifically, this research study will examine the extent to which firms in the funds management industry have a marketing orientation. This study will provide the foundation upon which further qualitative and quantitative research will explore the issues which emerge from this initial stage.

Industry research highlights the critical role of marketing activities in the funds management industry. The 2005 *Australian Investment Management Survey* conducted by PricewaterhouseCoopers highlighted the challenges of:

- “dealing with volatile markets” (p. 13) and;
- “responding to evolving client needs” (p. 13).

as “the greatest opportunities to investment management organisations” (p. 14). Asked to identify the ten greatest opportunities for profit, respondents identified five marketing related activities:

- attracting new clients,

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<sup>1</sup> McKinsey and Co. estimate sales and marketing expenditures to cost 3 to 6 basis points of assets under management, depending on the size of the firm. By comparison, investment management expenses are estimated to range from 6 to 13 basis points.

- retaining existing clients,
- brand image/reputation,
- adapting to client needs, and
- entering new markets.

It is therefore evident that marketing activities are viewed as significant by the industry, and they exist regardless of the larger economic environment and its impact on a funds performance: while all funds remain hostage to economic conditions, marketing initiatives can enable a fund to differentiate itself from its competitors. Through such differentiation the fund can augment its product offering and seek to distance itself from competing funds regardless of conditions in the economy. Funds can seek a relative competitive advantage which is based upon its marketing initiatives and client perceptions of those initiatives. Effective marketing is thus essential to competitors in this market.

The IBISWorld (2006) report on the funds management industry has also identified marketing-related issues to be of importance in the future outlook for the industry. Customer management issues, including retention and increased selling to existing customers, have been acknowledged as key revenue drivers. Previous research pertaining to Australian superannuation fund members has identified the importance of meeting or exceeding customer expectations in order to achieve customer satisfaction, increased spending and referrals (McDonald, Vieceli and Darbyshire, 2003). Given the anticipated focus on customer management, brand management, product innovation and distribution channels for the funds management industry (IBISWorld, 2006; PricewaterhouseCoopers, 2005), the degree to which an individual firm embraces a marketing orientation may be a key driver of their success.

Marketing orientation, as originally conceptualised by Narver and Slater (1990) consists of three behavioural components—customer orientation, competitor orientation, and interfunctional orientation, and two decision criteria—long term focus and profitability. Customer orientation, involves understanding target buyers now and over time in order to create superior value for customers; competitor orientation involves acquiring information on existing and potential competitors, and understanding short term strengths and weaknesses and long term capabilities of key current and potential competitors; and interfunctional coordination relates to the coordinated utilisation of company resources in creating superior value for target customers at any point in the value chain. This study seeks to investigate the extent to which firms in the funds management industry embrace this orientation and the marketing challenges they face.

## **2. Significance and innovation**

This is the first study to investigate overall marketing orientation in the funds management industry. Previous research has focused only on specific aspects of

marketing such as customer satisfaction (e.g. McDonald, Vieceli and Darbyshire, 2003), consumer behaviour (e.g. Thomas, Rao and Javalgi, 1990), branding (e.g. Brady, Bourdeau, Heskell, 2006) and advertising (e.g. Huhmann and Battacharyya, 2005).

In addition, the study provides a comparative analysis of competing participants in the industry. Further research could be undertaken as to how specific differences in their actual orientations relate to the performance of their funds.

This study will also develop a survey instrument to be used to measure marketing orientation in the funds management industry for use in future quantitative research.