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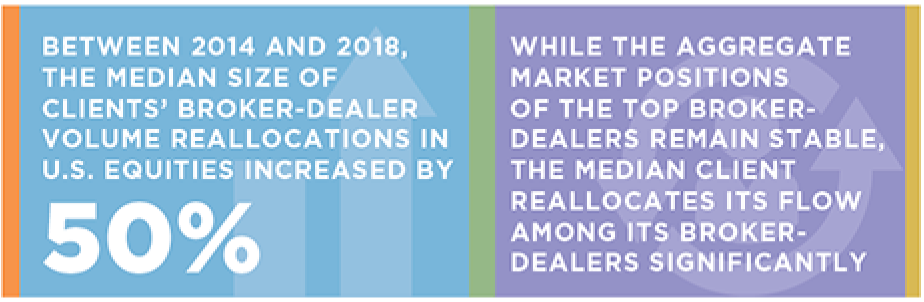
Customer Retention in the Age of Electronic Trading

March 12, 2019

Executive Summary:



By mining our historical data on dealer-client relationships, Greenwich Associates found that they are becoming significantly less stable over time and that the relative stability advantage held by the bulge-bracket firms is eroding. We believe this is due to the increasingly sophisticated ways in which the buy side is scrutinizing their executions, using tools originally designed to prove best execution and now deploying them for trading optimization.

This has significant lessons for the sell side. First, for the top firms, the depth of client relationships is less important than the breadth of the client base. And all firms have a strong interest in reducing the volatility of their customer market share. It is likely broker-dealers will adopt their clients' methods but in reverse—using their greater volumes to model client behavior, enabling them to intervene early.

Methodology:

This report draws on several sets of Greenwich Associates data as well as 15 interviews conducted by senior analysts with asset managers in the United States and Canada. Respondents were asked about their current trade analytics processes as well as their expectations for the future evolution of trade analytics. The primary data set is derived from the annual Greenwich Associates U.S. Equity Investors study—in 2018, there were 275 respondents. The particular data set used for this analysis examines the pairwise brokerdealer client relationships from 2013–2014 and compares them to 2017–2018. Over 2,200 pairwise relationships are included in this data set.

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