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# What is Market Structure, And Why You Should Care

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If you work in institutional finance you've heard talk of market structure. Not only are there entire conferences dedicated to the topic, but most of the participants at those conferences— banks, asset managers, researchers—send their heads of market structure to speak. Commonly used in economics to describe the interconnectedness of and interaction between the buyers and sellers in a market, the term market structure isn't new. The focus of financial firms on this topic, however, raises a number of questions.

We know the textbook definition of market structure, but what does it really mean in financial circles? At Greenwich Associates, we define market structure as "the impact of regulations, technology innovation and behavior changes on the market and its participants." Business models, methods of communication, security prices, and investment returns are all impacted by changes in market structure. This definition explains why market structure continues to receive more and more attention—the simultaneous increase in regulatory change, new technology and behavior shifts since the credit crisis are unmatched at any other time in history.

This has created a market full of diverse businesses (asset managers, investment banks, financial technology firms, exchanges, etc.) all working diligently to both understand how market structure changes will impact their business and what they must do to adapt and succeed. These efforts often consist of several specialists—legal, technology, operations, trading—working to put the strategic pieces together. In many ways this is very similar to what executive strategy teams have done for years. The difference, however, is a large number of external factors set to upend the status quo in a very short amount of time, with no signs that any of those items are shrinking or slowing.

Heads of market structure within sell-side and buy- side firms work to coordinate the aforementioned specialists and create a holistic picture of what is to come and what must be done to adapt. They can, in some ways, be likened to a macro-economist, someone who understands both the forest and the trees and is willing to use all available data to define a reasonably likely outcome. Firms in all industries can become old news or new news very quickly today, and having someone that examines the picture is key.

Market structure planning is not simply a cost center. Institutional investors value the market structure advice provided by their salespeople as a critical element of the broker relationship. Think of it as banks turning the lemons that are regulatory changes into lemonade. Greenwich Associates' research shows that clients value market structure expertise right alongside market color and trading ideas as a deciding factor in deciding with whom they will trade. This has proven an excellent way for non-bulge bracket firms to enter the conversation where previously they might not have been considered (a list of the top 10 market structure firms per our buy side respondents is available in the PDF version of this post).

While most major firms have committed to offering market structure advice to clients, few have figured out how to accurately value the contribution this makes to the bottom line. Like market structure itself, the thought process here is fuzzy. Sell-side firms we've spoken with know this advice is helping to find new clients and retain existing ones, but none can say for sure whether the market structure element brought those clients over the line. This expected correlation is something Greenwich Associates will examine in coming months.

Market structure change impacts everyone. The way the markets work will continue to evolve at an unprecedented rate, transforming opportunities and threats to many financial businesses, from hedge funds to market data providers. I appreciate that, unlike the unbiased views we take in all of our other research, our views on the importance of market structure are inherently biased (I do head market structure and technology research, after all). But the last few years have proven that the only sure thing is that market structure evolution is here to stay.

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