Giving your platform wings

Altus

BUSINESS SYSTEMS & CONSULTING
FOR FINANCIAL SERVICES

About us

Altus Consulting is a specialist provider of consultancy services to the Financial Services sector.

We help clients achieve propositional and operational excellence and improved returns via a combination of proven industry models, technology expertise and market insight.

For more details of these services please visit our website altus.co.uk or contact us on 01225 438 000.

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Introduction

Six years ago Altus Consulting released a white paper, The Platform Machine: Tuning for Efficiency. In it we claimed that, in spite of ever increasing levels of Assets under Administration, all was not well in platform land. Revenues were rising across the board, but costs were outstripping them, in many cases significantly so.

To be blunt: the industry wasn't making money.

Compounding the problem were spiralling change costs supporting the launch of new propositions and the re-platforming of legacy systems; and all this with increased margin pressure from core regulatory initiatives such as the RDR plus cut-throat competition. For advised platforms, this had led to a halving in average revenue earned from 80bps to 40bps in the previous five years.

In spite of these challenges, we predicted two things:

- The industry as a whole was on the verge of moving into profitability
- Without a focus on operational costs, firms would continue struggling to make meaningful profits.

Figure 1. A selection of platforms included in our industry study

In the six years since we wrote our original paper, the number of platforms has continued to grow and there have been some which have moved into profit, many of them significantly so. Recently a few of those star performers have even begun to openly discuss IPO plans; a reflection of the positive outlook for this corner of financial services.

But the story is not uniformly rosy across the platform sector, so we decided to have another look at profits, costs and the numerous factors which sit behind them. Before we share our insights, a quick word on the scope of our analysis.

When we wrote The Platform Machine in 2012, we had a clear focus on adviser platforms, which were quite distinct from their direct and corporate cousins. Since then, a number of developments including Auto-enrolment, Pension Freedoms and RDR have blurred the boundaries as more platforms recognise that consumers flow between channels. In this latest paper we have therefore broadened our scope to cover all platforms and that has had an impact. To be precise; a Hargreaves Lansdown impact.

Taken as a whole, the platform sector is now showing signs of long term profitability as illustrated in Figure 2a. Unfortunately for the rest of the industry, the graph looks a bit different if we strip out the Hargreaves Lansdown Vantage platform – see Figure 2b.

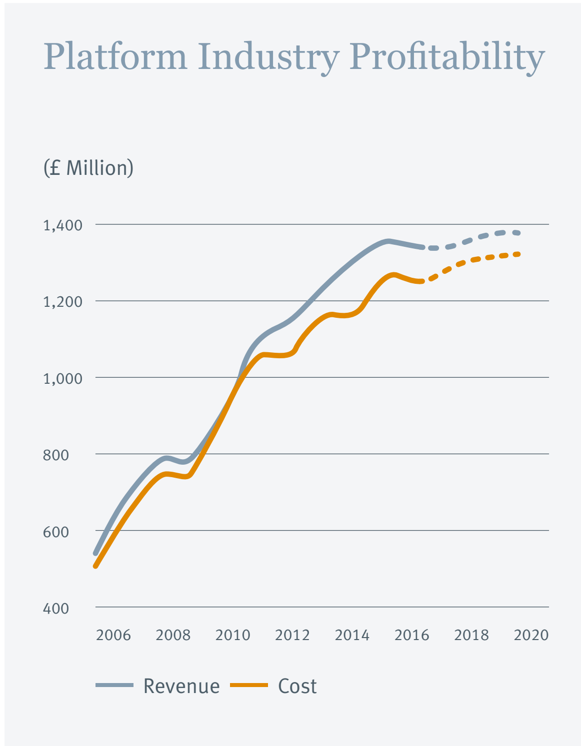


Figure 2a. Revenue against cost across the platform industry

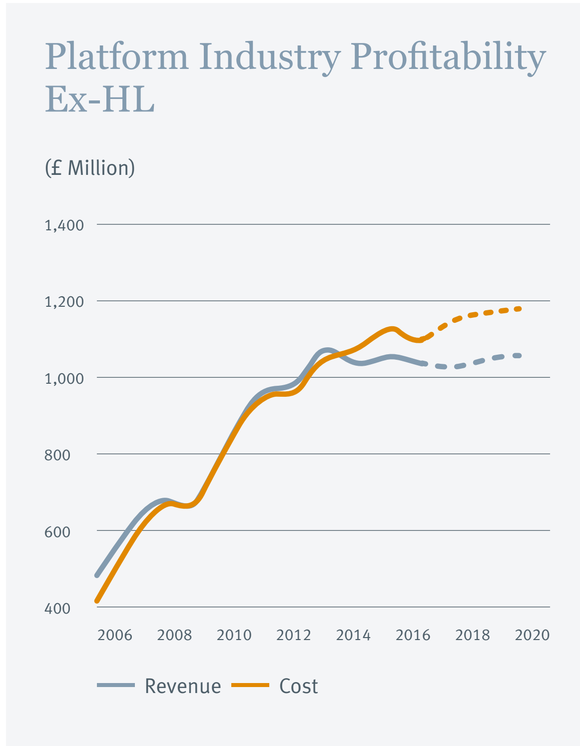


Figure 2b. Revenue against cost across the platform industry excluding Hargreaves Lansdown

The Power of Profit

When we re-ran our original analysis, one of the first things that became very clear was that improvements in profitability have come at the cost of increasingly slim margins.

Total AUA has grown by 180% since 2011, however total revenue has increased by just 22%. The explanation is margin pressure; revenue in bps was already falling in 2011, and has continued to slide. It now stands at 24bps, adding yet more pressure to the players in an industry where it is notoriously difficult to make money.

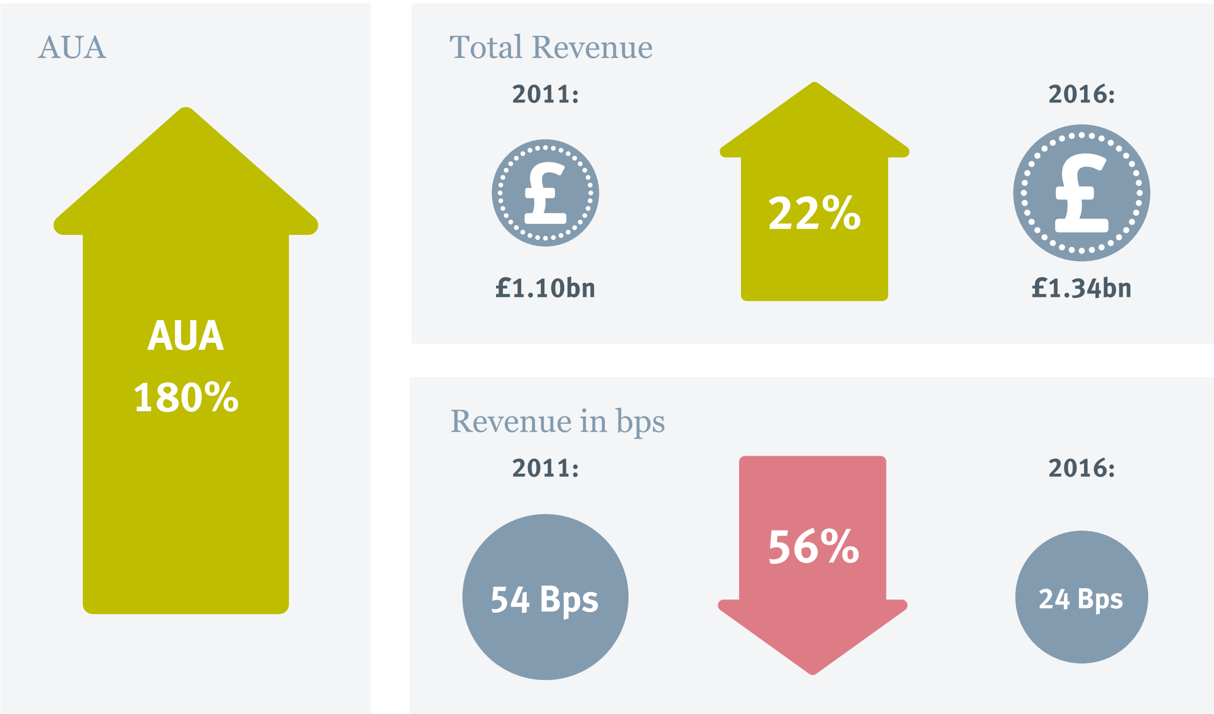


Figure 3. Total AUA and revenue has risen, however revenue in bps has fallen

> **"Re-entering the investment advice space is not a decision Santander took lightly. We were acutely aware that margins for platforms are increasingly slim which is why our Investment Hub platform is built around automation and efficiency and why we used best of breed technology and services to deliver it."**
>
> James Dunne, Global Head of Digital Investing, Wealth Management, Banco Santander

> **"Some platforms do not take into account the cost of continuously developing their offering. The model is different to that of a traditional LifeCo where the emphasis was on the original effort and costs required, rather than the ongoing development costs needed."**
>
> Andrew Smith, CTO, Nucleus Financial

It's tempting to assume that scale must be the key to unlocking this puzzle but, dig a little deeper and we find that it is actually the platforms which began life as small start-ups that have the best record. Those platforms which were spawned from larger groups are, in most cases, still struggling to make a profit.

So have the Spitfire start-ups already won the Platform Battle of Britain or is there still hope for the other side?

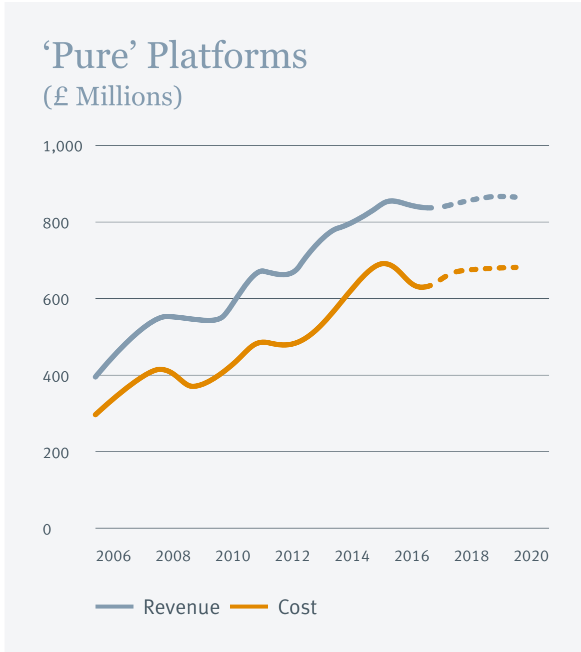


Figure 4a. Revenue against cost for 'Pure' Platforms

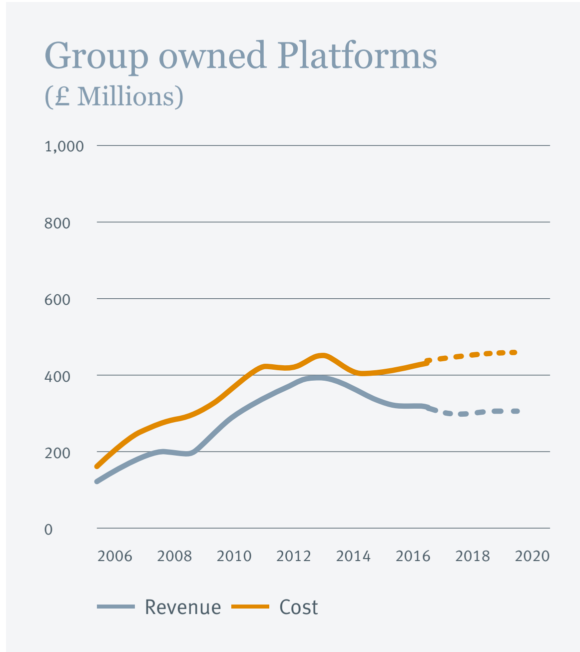


Figure 4b. Revenue against cost for Group owned platforms

The Power of Profit (cont)

Sticking to the Flight Plan

Almost 50% of firms from a 'pure' platform background are in profit – so how have they done it?

These platforms have typically been run by visionary founders who have built loyal teams of creative problem solvers. They have then found innovative ways of providing a service while tightly controlling costs. This played well for these firms in the early years, as they established their brands in the market. However, issues have arisen for some of these platforms, as they have tried to scale their operations to deal with the greater volumes that success has brought; even the most profitable firms have operational challenges behind the scenes.

At the other end of the scale we have Group-owned platforms which have emerged as new business lines for existing firms, usually life companies. While these groups are used to building propositions for scale, this has traditionally been in a world of high margins, which buffer the impact of high development costs.

Despite attempts to embed their own start-up culture, this traditional model offered group platform propositions several years of investment before they were expected to break even. However project overspends and decreasing margins have meant that profits have stubbornly remained over the horizon.

Over 60% of Group-owned platforms have never reported a profit, while the rest have flipped between profit and loss on an almost annual basis. This is despite many having reported substantial increases in AUA, often as a result of migrations of legacy back books – proof that scale is not the only thing you need to be successful.

It seems clear that both sides need to do some serious maintenance in order to remain airworthy.

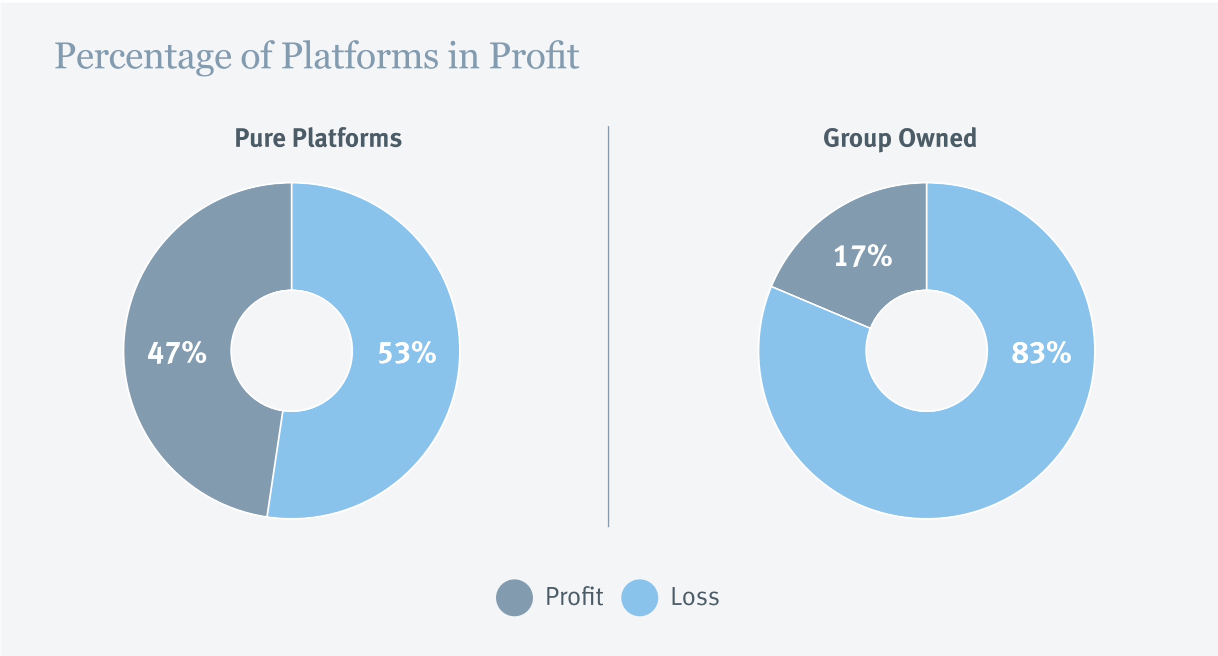


Figure 5: Pure platforms are more likely to be profit-making than those that are Group owned

Profits Fly

Altus has been tracking the platform market across a variety of metrics for 10 years and we now see 80% of new investment business flowing through platforms. We've also engaged with a majority of them professionally over the same time period, so like to think we know what keeps your typical platform up at night.

As we have noted, effective revenue on platform assets continues to shrink; however it seems that the cost of servicing both a customer and an adviser is falling at almost the same rate. It's common sense that costs need to be less than revenue to deliver a profit, but how to get there?

The cost disparity across platforms is significant. The highest operating costs come in at £297 per £10k AUA while the lowest is £7; the average was £42. Figure 7 below shows the run cost of platforms across a range of bps cost bands.

40% of platforms manage to service their client book for under 25bps (£25 per £10k AUA); the others are unable to keep costs below what an average platform would consider to be a fair charge rate for their customers.

If we compare profit and AUA, the importance of operating costs is highlighted. While there are a couple of outliers, there are almost as many people doing badly as there are doing well, and there is certainly no clear correlation between AUA and profit. The reality of the platform space is that while scale is clearly a requirement to drive higher profits, it is no guarantee of success.

In the next section we will take a closer look at some of the challenges of scale, and some of the options for addressing them.

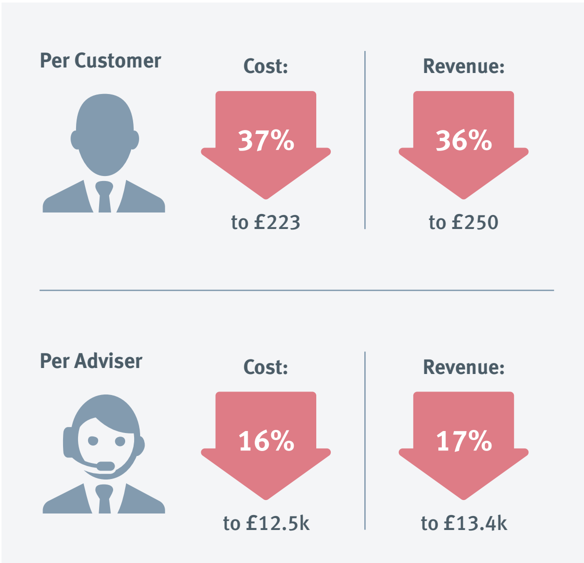


Figure 6: The cost and revenue earning potential for both customers and advisers is falling

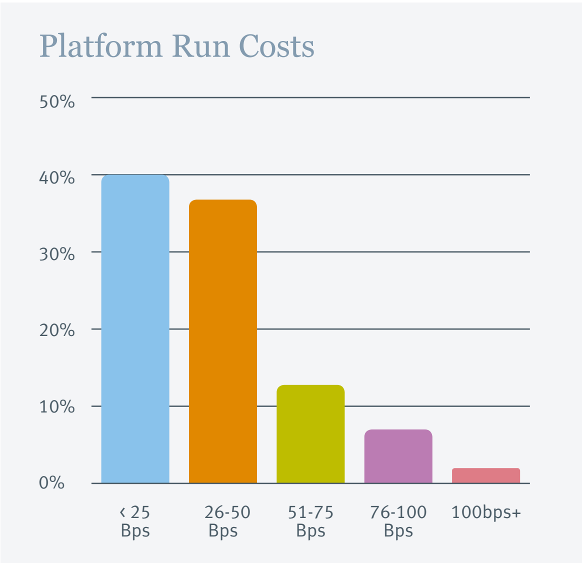


Figure 7: Platform firm run costs in bps across a range of cost bands

The Age of the Jumbo

One of the most significant trends in the recent history of the platform sector has been the emergence of super-scale platforms in the pursuit of profit. When we first started compiling statistics on platform profitability, we picked 2006 as our starting point. Total platform AUA was less than £100bn and even the mighty Cofunds had yet to reach £10bn. Twelve years on, total AUA is now approaching £600bn, Cofunds is part of a £100bn juggernaut and there are half a dozen more platforms with assets over £30bn.

Fantastic as this success story sounds, there are some downsides to the platform sector's rapid expansion. Many of the industry's most successful platforms started life as a metaphorical light aircraft; cheap to maintain, easy to pilot, and able to change direction quickly. Over the years, more features have been added, special deals have been agreed and a raft of regulatory adaptations have been bolted on. Our single-engine Cessna has turned into a Jumbo jet before our eyes, and keeping it in the air has become a full-time and increasingly complex job.

In an ideal world, you don't evolve a large commercial airliner in-flight and so a number of big platforms have gone back to the drawing board. What they have found is that it's not cheap: £50m is the typical cost of re-platforming and some have far exceeded that figure. With this level of investment, it's important to understand the options before going too far.

In an era of rapid technological and regulatory change, developing a new platform from scratch would be a very brave move. Most are therefore turning to established suppliers, in the hope of benefitting from economies of scale. Broadly speaking, there are two main options:

- buy the technology and use it to support your platform services
- buy the platform services themselves

There are numerous variations on these themes and, in the next two sections, we will dig a little deeper into what's involved and some of the factors which influence the attractiveness of different approaches.

> **"With falling margins and increasing pressure on consumer value for money, technology is absolutely critical to platform profitability. Our job is to make investing easier and cheaper and that means connecting systems all the way from the customer through to the asset manager."**
>
> Richard Denning, COO, Aegon Digital Solutions

Licencing IT (ITO)

The idea of buying your platform technology from a specialist supplier offers several potential benefits: the endless pressure of keeping up with regulatory change can be shared across multiple clients and the challenge of ensuring your systems are on a supported technology stack can be solved. Plus there's the appeal of being able to concentrate on your proposition, rather than getting bogged down in the detailed mechanics.

A growing number of firms are forming strategic technology partnerships, to enable them to scale their operations effectively. Most of the big platforms have turned to established players in the market, for example Fidelity with Bravura, and Aegon with GBST; but there are also a few new entrants beginning to gain a foothold in the mid-market.

It is worth pointing out that buying technology does not necessarily mean a single turnkey solution. Aegon is a good example of a Jumbo platform which is blending established core platform technology from an established supplier, with individual components from specialist firms.

There are any number of specialised components up for grabs, from illustration engines to reconciliation tools, to CGT calculators and portfolio modellers. There's certainly no shortage of FinTech suppliers waiting to provide solutions – see Figure 8 below. The decision on which areas to target with technology very much depends on a platform's proposition, its business mix and the pain points it is experiencing. A D2C platform from an asset manager will have a very different focus to a specialist wealth manager dealing with a much wider asset universe.

Figure 8: There are a wide range of technology options available to platforms

The Age of the Jumbo (cont)

Outsourcing (BPO)

While outsourcing IT can solve many thorny issues, it still requires the platform to carry out back-office processes which use the technology themselves. A number of platforms have begun to see this kind of processing as a commodity, and so have looked to outsource the processes as well as the technology which underpins it.

A new breed of business process outsourcer has emerged to service this demand; different offerings have evolved to service specific niches, in a similar manner to developments in the ITO market. At one end of the spectrum we see suppliers such as Pershing and Allfunds who specialise in the trading and custody of assets at scale. The middle ground is firmly occupied by FNZ, probably the best known platform BPO supplier, who offer outsourced Investment Administration, while the platform carries out client and wrapper servicing on the same, integrated system. A small number of suppliers, including Genpact, SEI and DST, have gone further still, to offer a BPO service which covers the full spectrum of back-office processing extending to wrapper and client servicing.

Figure 9: Key suppliers and participants in the platform market for a range of platforms

Choosing a Flight Plan

We started this section talking about the emergence of a few Jumbo platforms however there are, of course, still several Bombardiers in the platform fleet and even the odd Lear jet. While the appeal of a full outsource may be of limited interest to these lighter aircraft, some of the specialist services on offer could well be appropriate. Third-party stockbroking services, portfolio transfer systems and performance reporting tools are all common features of the platform sector, irrespective of scale, all of which can help improve platform efficiency.

Whether your platform is a Jumbo or a Lear jet, selecting the most appropriate components from the myriad of permutations can be complex. You need to understand where the costs are in your business, how they are likely to scale with growth, and what you can do to affect that trajectory. These factors will vary by platform, but there are some common patterns we have found across the sector, and which we have tried to shed some light on in the following sections.

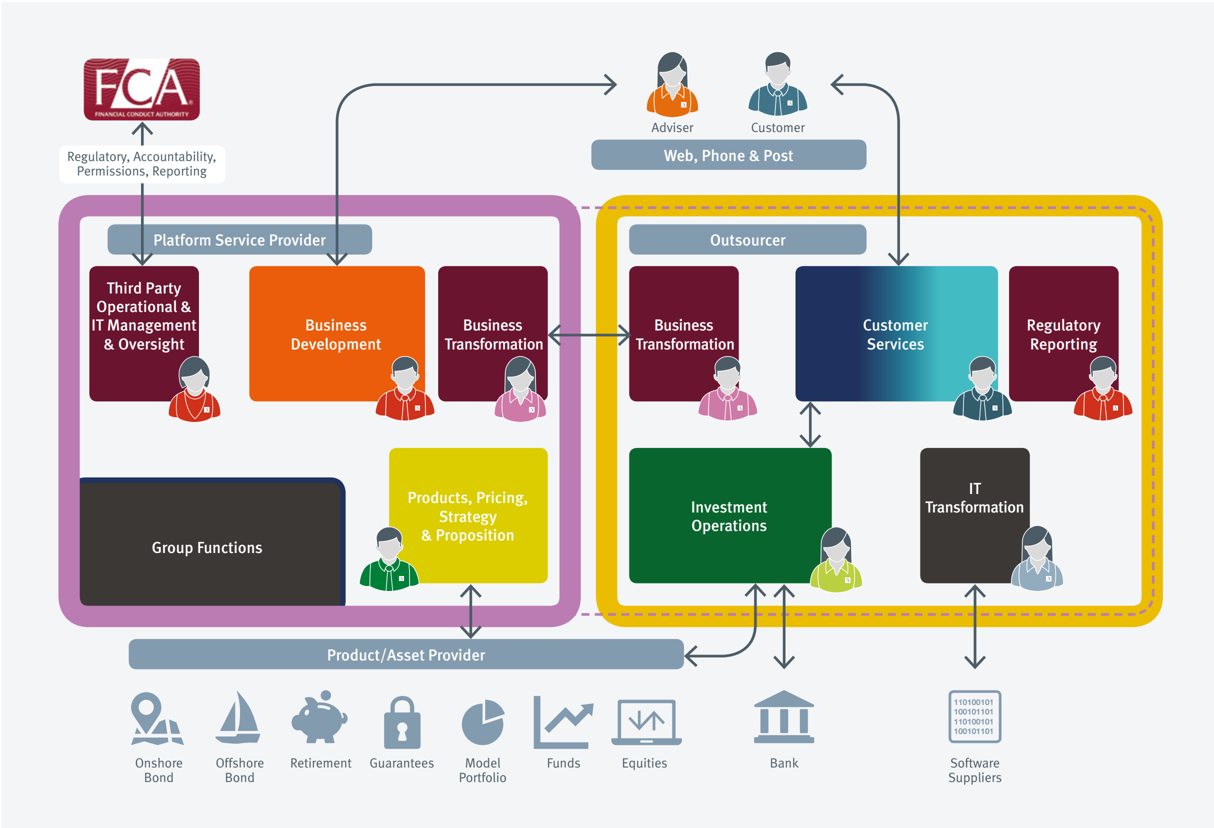


Figure 10: Typical target operating model for a full service outsource

Generating Lift

Any platform business will benefit from having a clear picture of its costs, with the Altus capability framework providing an ideal canvas for painting that picture.

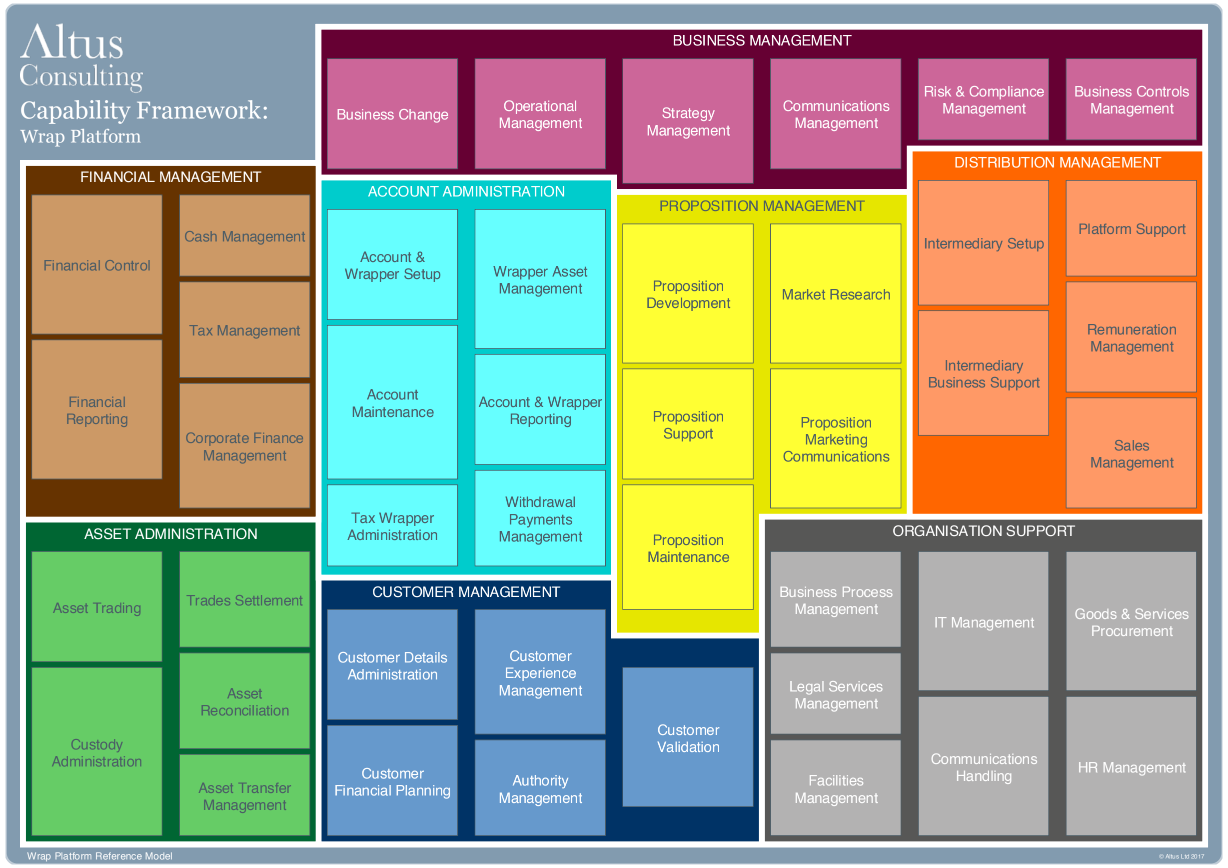


Figure 11: The Altus Platform Capability Framework

Over the last twelve years, we have built up a cost benchmark of core operational capabilities across a range of platforms. This has enabled us to identify the capabilities which are key to controlling costs and turning a profit.

So where should a platform concentrate its efforts and budgets? The following sections describe the most common areas where we see cost challenges, together with a few suggestions on how to tackle them. But first, a note on the tricky business of projections.

Scaling Up

As part of our benchmarking research, Altus tracks a range of operational metrics, from customer numbers to trading volumes. This allows us to calculate the size of operation required to run a platform of a given business mix, and how much it costs to perform a particular capability. When we do this, we can quickly see where the outliers sit and where the problem areas are.

What we typically see, is that as a platform achieves greater scale, the costs of many activities such as changing an address or buying a fund start to fall; but not in the same way. Different capabilities scale at different rates; something that may seem obvious when stated, but which is often ignored. Almost nothing in a platform business will scale purely by the level of AuA, but all too often this is the standard metric used to draw up next year's business plan.

There will always be an incentive to reduce the rate at which the cost of a given capability grows (we call this scale factor); Figure 12 below shows some common areas of operation, with typical scaling factors. There are a range of techniques which can help change the rate of decline, which we will talk about later.

Any investment into improving a platform needs to target current pain points without accidentally sleepwalking into a fresh set in two years' time. This is obvious for software, but applies equally to sourcing; there is no point outsourcing today's problem, only to find you have signed away tomorrow's profits!

Some of these improvements can be achieved through the development or deployment of new software; others will require an assessment of the current operation, employment of specialist staff or a complete outsource. We will cover all of these in the following sections, along with some observations and what works when.

Figure 12: The unit cost of carrying out core operational capabilities falls as a platform gains scale

Generating Lift (cont)

Trading

A core function of any platform is the ability to take a client's money and buy units in a fund or shares in a company, so it is expected to be fast and efficient. That efficiency will be influenced by a range of factors, including market connectivity and the ability to aggregate individual customer trades within tight timescales, in response to demand and market movements.

The ad-hoc expansion of some platform propositions has left them with multiple routes to market. This increases complexity, reduces efficiency and ultimately leads to operational headaches. Others find themselves with a complex patchwork of nominee and bank account structures, causing errors and delays around best execution, potentially requiring customer compensation. Perhaps unsurprisingly therefore, our benchmarking in this area shows a particularly wide range of operating costs, reflecting varying levels of Straight Through Processing (STP).

All of this puts cost and accuracy pressure on the platform, so it's not a surprise that a number of firms in the platform space provide a full outsource service for just such a function. While this can be very appealing to those facing heightened regulatory pressures from MiFID2 or CASS, it is important to understand the way costs scale. As a market-facing capability, the cost of trading entails high initial set-up costs to establish systems and connectivity; however costs should then follow a relatively gentle gradient, which reflects a growing range of assets rather than the value of trades in those assets. Bluntly, it doesn't cost much more to trade £1m in a fund than it does to trade £1k in one go, although we see costs for a market trade ranging from 30 pence to over £3 (see Figure 13).

This knowledge is important when negotiating an outsource deal. Whilst it is perfectly reasonable for a supplier to seek to cover initial costs plus some profit margin, if you are the platform, you don't want to be paying the same ad valorem fee when your assets have grown tenfold in a few years' time.

Tiered charges are one possible answer, and they should ideally be related to your own platform charging structure. For those platforms who have already signed up to a deal that is stacked in the outsourcer's favour, an alternative route would be to consider insourcing this capability once a certain scale has been established.

Figure 13: Cost range data from Altus Benchmark study

Reconciliations

As with trading, the unit cost of reconciliations ought to scale in line with growth of the asset universe on a platform, rather than its AUA or size of user base. However, whilst trading mechanisms are stable, well understood, and predominantly electronic, the world of reconciliations has seen significant upheaval in recent years.

The evolving regulatory landscape, post-RDR, has shone a spotlight on custody rules, with the FCA's CASS sourcebook roughly trebling in size since 2005, and some serious fines being levied for breaches.

Reconciling client money and client assets has become a major focus for all platforms, and there has been a lot of activity in this space. Unfortunately, much of that activity has been reactive and tactical, spawning numerous interim processes which are typically manual and bristling with spreadsheets. Once embedded within a business, these manual reconciliation processes can prove stubbornly difficult to remove. They can be expensive as well; our research has found some annual reconciliation costs as high as £290 per asset line which, when you consider the number of instruments that an open architecture platform typically hosts, is enough make or break a profit.

It doesn't need to be that way, though - the key is automation. As the volume and frequency of reconciliations has grown, a number of suppliers have recognised the opportunity. AutoRek and SmartStream are increasingly becoming part of the platform landscape, with some of the big platform technology systems now offering pre-built integrations, for example Sonata with Autorek. The result can be much lower costs; some platforms are now reconciling their assets for just £30 per asset line, almost 90% lower than the least efficient competitors.

Figure 14: Cost range data from Altus Benchmark study

Generating Lift (cont)

> **"It's difficult to see how a simple process such as funds trading can help differentiate a platform's offering. Users will see many core investment administration functions as commoditised and expect the platform to run them to a high standard."**
>
> Andrew Smith, CTO, Nucleus Financial

Transfers

Transfers have become a key part of many platforms' strategic intent, especially those with a D2C offering. Taking their lead from the world of current accounts, platforms are trying to emulate their retail banking cousins in lowering the barrier to entry for client acquisition. In the aftermath of pension freedoms, we have seen a surge in transfers which has tested the capability of many platforms.

Until recently, the transfer of assets between providers was typically based on paper and human intervention. This led to a slow and expensive process, which often entailed large, out-of-market risk and a frustrating experience for consumers.

The development of open standards for transfers between providers has helped streamline the process, but many firms are still reliant on operations staff managing the process.

At the risk of blowing our own trumpet, there are some rather effective electronic transfer systems available these days, which have been able to slash the cost and time taken to transfer a portfolio. For some clients who have integrated electronic transfers into their operation, we have seen the cost per transfer reduce by up to 75%; the average ISA to ISA in-specie transfer time has decreased from several weeks to just 3 days, and costs as low as £1 per transfer.

Figure 15: Cost range data from Altus Benchmark study

Cash Handling

Cash underpins almost every functional component of a platform. From receiving investment instructions from clients, to instructing payments on client money bank accounts and settling with fund managers, cash makes a platform go round (see Figure 16).

The volumes experienced here are very closely aligned to the number and activity levels of clients, so it's important for platforms to understand how this aspect of their business is likely to grow when looking at potential efficiency savings.

On the subject of efficiency, the world of cash processing has traditionally been manual and cumbersome. One only need look at the numerous processes run by platforms, where imported spreadsheets from banks are used to match payments to platform instructions, with multiple parties checking the transactions. Harnessing newer technologies, such as distributed ledgers, may eventually help remove some of these inefficiencies, but they are several years away.

Meanwhile, there are a range of areas where platforms can improve the operational efficiency of their cash handling. A banking integration with the underlying transaction account provider allows for a better auto-matching process, for example. The way in which platforms manage their BACS integration can also often easily be enhanced; while most have a solid integration for new direct debit requests, many fail to make proper use of the amendments, cancellations and payment failures files that are made available (e.g. ARUDD and ADDACS).

This lack of electronic processing means that the exceptions process for payments is often manual and unwieldy, which is enormously restrictive for growth, especially as payments become more complex and frequent.

The good news is that we have seen clients implementing a number of improvements, to improve the way in which cash flows into and out of their businesses. This includes the above examples of automated matching of cash received to an expectation and dealing with the less common BACS messages, resulting in STP rates of 80% in some cases.

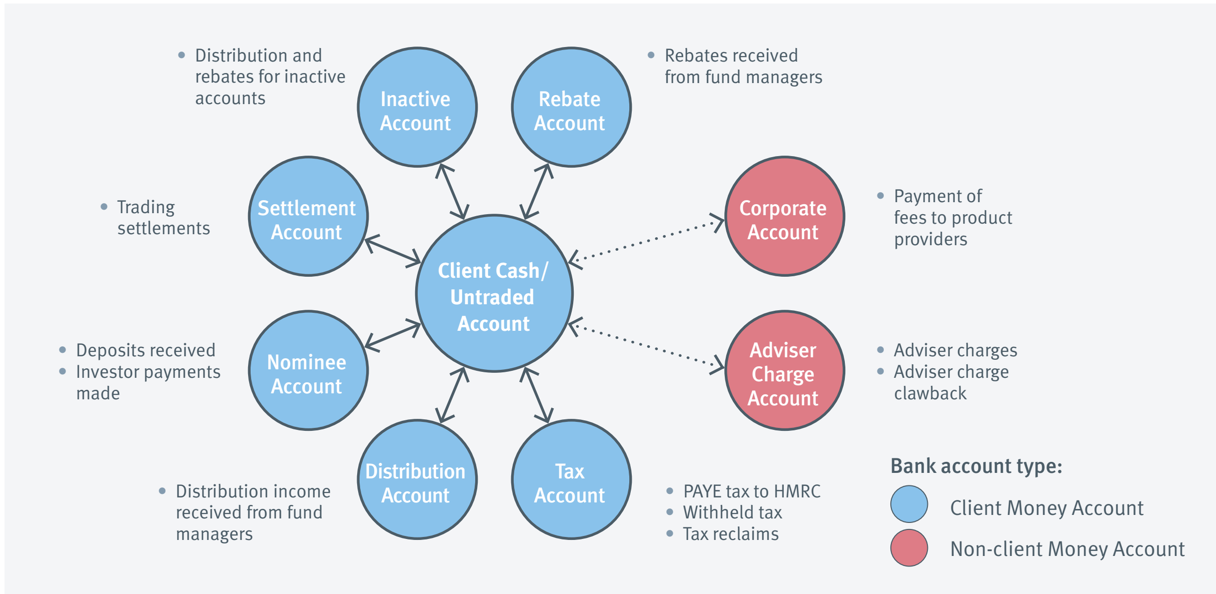


Figure 16: Typical platform cash account structure

Generating Lift (cont)

Corporate Actions

A significant trend among leading platforms in the UK market over the past decade, has been the relentless increase in the breadth of their asset ranges. An inevitable by-product of this open architecture battle has been a sharp increase in the volume of corporate actions, dividends and distributions which investment operations teams need to manage. The cost of Custody Administration overall is substantial – annual costs can be as high as £250 per asset line.

Many platforms have tried to make improvements in this area by obtaining a consolidated data feed, in order to provide reliable notice of upcoming events. The challenge is that the asset management community has failed to adopt a consistent standard when it comes to communicating corporate actions; platforms are often left chasing their tails and dealing with the application of corporate actions after the event. This is bad enough where a platform has adopted mandatory proxy voting, but is made even worse where they have elected to pass on voting rights to individual customers.

There are tools which try to normalise the many variations, and enable platforms to keep track of their substantial asset universe and associated corporate actions. Thomson Reuters, FIS and SIX all use their scale to access global pools of data, whilst, in the UK, smaller firms such as Finocomp have focused on integrating and synchronising existing feeds for their platform clients. An alternative approach is to outsource custody of the assets to a specialist, who can provide their own consistent interface for Corporate Actions. The answer will depend on the breadth and complexity of a platform's current and planned asset range.

"Keeping control of your asset range is absolutely essential for a platform. Without access to a single source of good quality data, errors can quickly materialise leading to operational issues and the platform paying compensation to customers."

Ray Tubman, CEO, Finocomp

"There's an extraordinary level of investment being made by some of the technology providers and while not everyone has found it easy, substantial benefits can accrue to those who adopt and manage these technologies well."

David Ferguson, CEO, Nucleus Financial

Workflow

In the preceding sections we have looked at individual components of a platform, and how to make them more efficient. In reality, these functions rarely operate in isolation, but must be joined together to deliver an end-to-end journey for the users of a platform.

Most platform systems leave this orchestration to the platform operator, who will typically design their own adviser or consumer portals for the external-facing processes. But that still leaves some of the more complex back office processing to be managed. Getting this management wrong can undermine even the most efficient operations with unnecessary delays, duplication and wait times.

Some platform systems, such as Bravura's Sonata, have been architected to include workflow management from the ground up, whilst others can be integrated with a separate workflow engine – Aegon, for example, combines GBST Composer with Pega BPM. Whatever the approach, careful design of back office processes can squeeze further efficiencies out of any operation, as well as opening up further opportunities for performance improvement. A recent trend amongst some of the more progressive platforms, has been the use of robotic process automation (RPA) to "learn" a process and then execute it automatically and repeatedly. This level of automation becomes a much smoother transition if a process is already defined in a workflow engine.

The potential benefits from implementation of a workflow management engine are directly related to how effectively it is embedded within the business; whether this is from the ground up or at a later stage in a platform's life, we have seen both good and bad examples. Where workflow has been embraced by users, we have seen complaints reduced by up to 25% and overtime down by more than a third. Where the technology has been less enthusiastically received, we see an expensive electronic filing cabinet!

Lightening the Payload

Platform efficiency is about more than just Operations. When we analyse costs for our platform clients, we typically find that operational processing accounts for less than half the total spend, even where a platform has achieved significant scale.

The precise distribution of the non-operational costs varies, but the broad shape is summarised in Figure 17 below. Some of the common hot spots include regulatory change, proposition, sales and, of course, IT. The latter can be stabilised, though not eliminated, through outsourcing as discussed earlier in this paper, however the remainder warrant a deeper investigation.

The graphic below shows a typical split of run costs for a platform in the Altus benchmark. What we often observe, is a significant amount of spend in terms of IT and core support capabilities (grey and burgundy) as well as expensive sales and support teams (orange), but much less spent on developing products and other areas of the proposition.

Overheads

Perhaps the most sensitive topic when analysing costs is management “overhead”; the cost of the people who manage the business, rather than run its day to day operation. This is the area where the heritage of a platform has a noticeable impact, with the pure platforms faring significantly better than those which are part of a larger group.

This is not terribly surprising, since the pure platforms all started life as small start-ups, where the founders typically pay themselves peanuts in exchange for the promise of future riches in the form of equity ownership. By contrast, the group owned platforms have usually populated their fledgling businesses with some of the best talent from the parent company, often having to pay them handsomely to make the move.

Figure 17: Typical platform cost proportions against the Altus Capability Framework

Changing Times

The cost of regulatory change is a perpetual bugbear for Financial Services, and a topic we covered extensively in our RegTech white paper, together with some ideas on how to improve efficiency. Ultimately though, the workload is driven by regulators who, most recently, have kept us busy with CASS, MiFID II and GDPR. Much as we’d like to see this as a regulatory blip, the volume of change is unlikely to dip any time soon, especially given that platforms have become the de-facto channel for most retail investment.

Some outsourcers do offer a degree of comfort around regulatory compliance, which mitigates the exposure and allows for sharing of costs. However, there is a counterweight to this in the form of increased oversight requirements to satisfy SYSC rules - as the size or scale of an outsource operation increases, the materiality of the outsource grows. In short, the levers to influence the cost of regulatory change are limited and the variation in cost between platforms is small.

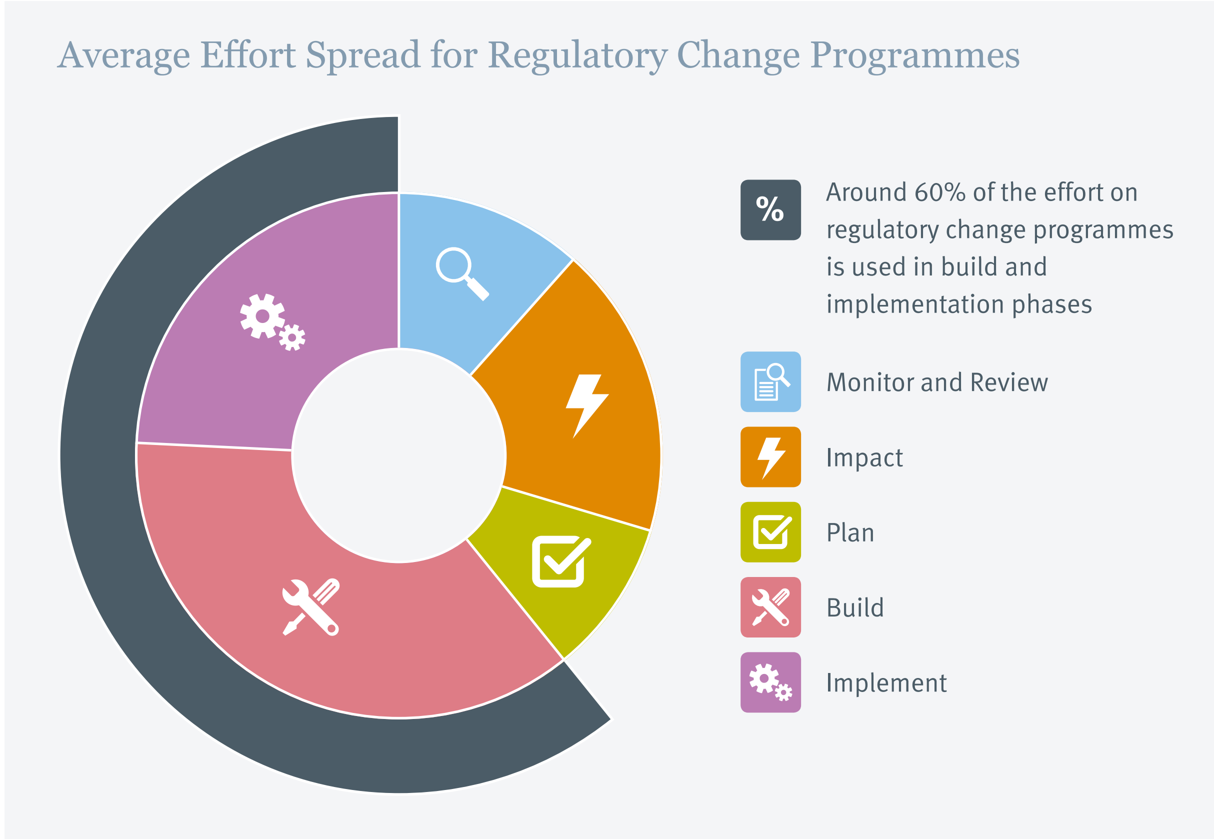


Figure 18: Build and implementation effort percentage for regulatory change programmes

Lightening the Payload (cont)

The Cost of Sales

Everyone knows that sales are the lifeblood of any commercial organisation; without them, even the most efficient operation is doomed to fail. But how much should you spend on sales, and what returns can you expect? As part of our cost modelling work, we see a wide variation in the proportion of a platform's budget devoted to sales, but as yet no obvious correlation with profit. That may, of course, be because it takes time for sales activity to translate into AUA and ultimately revenue.

In the meantime, we thought it would be instructive to translate some of the typical costs of selling a platform to users, into the AUA that would be required to support those costs, based on some of the ratios described earlier in this paper. Figure 19 below provides a visual summary of some of the common costs of sales.

Based on the 2016 average of 24bps of revenue per £AUA and an 8bps profit margin, our example sales manager or platform relationship manager would need to generate £100m of AUA onto the platform to cover their own costs. This is based on a total package cost of £160k, using typical industry salary and other overhead costs.

This is clearly a crude calculation which ignores future revenue, repeat business, retention or outflows, but at least provides some metrics to compare the financials of distribution. The processes around sales and marketing are not immune to the demand for efficiency, and it is perfectly reasonable to subject them to the same kind of scrutiny and, ultimately, improvement, that is typically applied to the core operation.

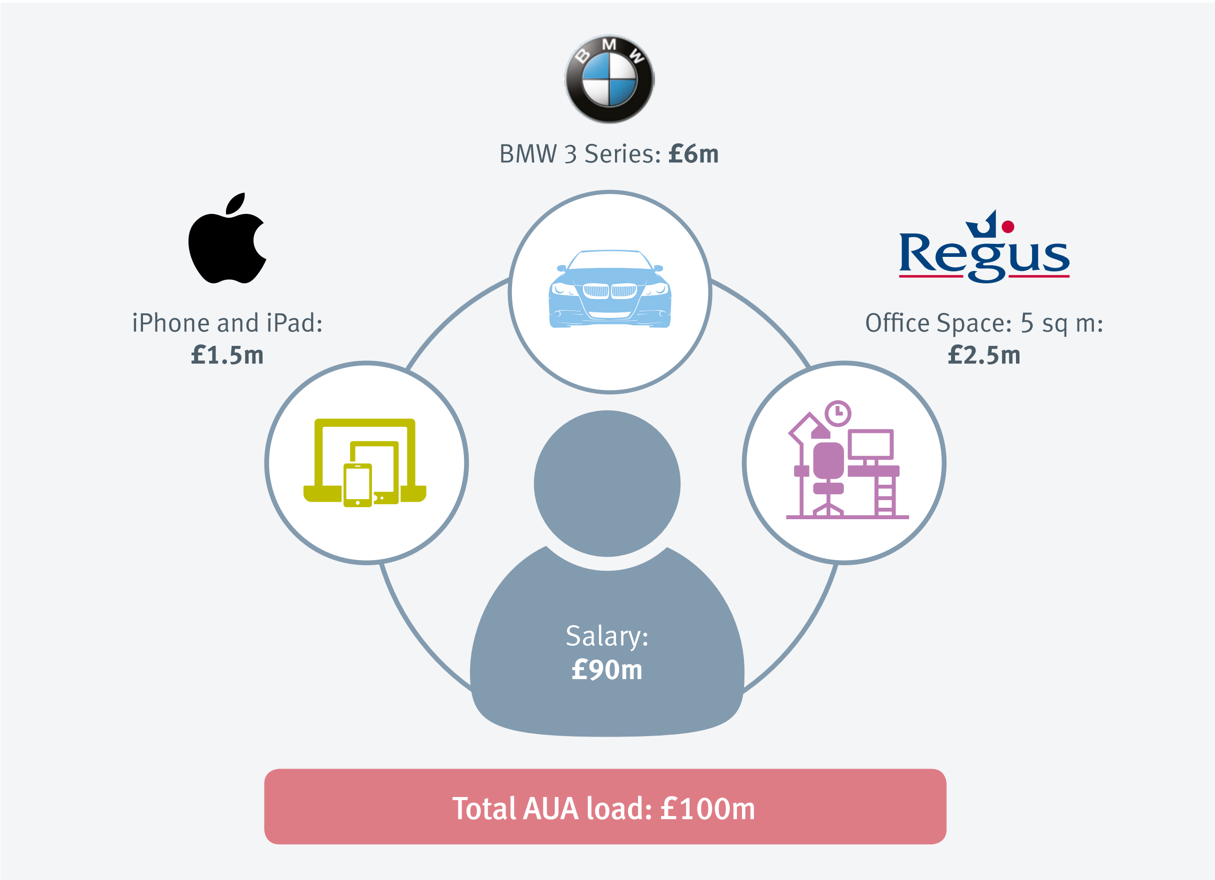
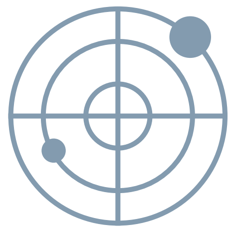


Figure 19: Platform AUA needed to cover the cost of a typical Sales Manager (£160k)

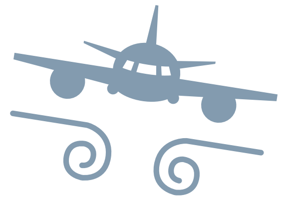
Coming in to Land

So what have we learned? In summary:

1 The platform industry has taken off over the last 5 years but, for the majority, significant profits remain out of range.

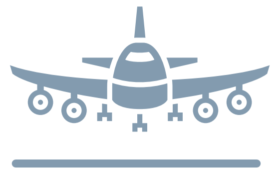


2 Margins have fallen, regulatory scrutiny has risen; platforms have had to deal with the turbulence this has caused.



3 Automation is key but it can be expensive, so platforms need to be clear where they will get the most thrust.

4 That means understanding where costs are high, where they are likely to get higher, and how to bring them safely back down to earth.



5 Outsourcing can get you off the ground faster, but it will add to your payload over time.

6 The price of flying is key, but don't forget the cost of your ground crew – they can ground your profits too if you're not careful.

There is undoubtedly profit to be made in the platform sector, as evidenced by a few of the current high-flyers. The question is whether the rest of the pack can slim down enough to stretch their wings and get airborne.

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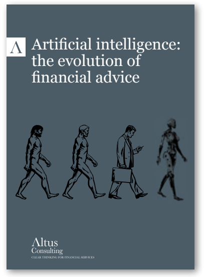

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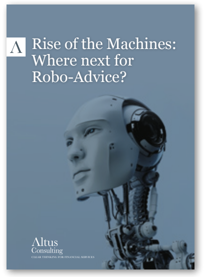

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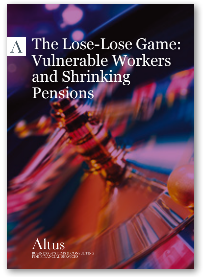

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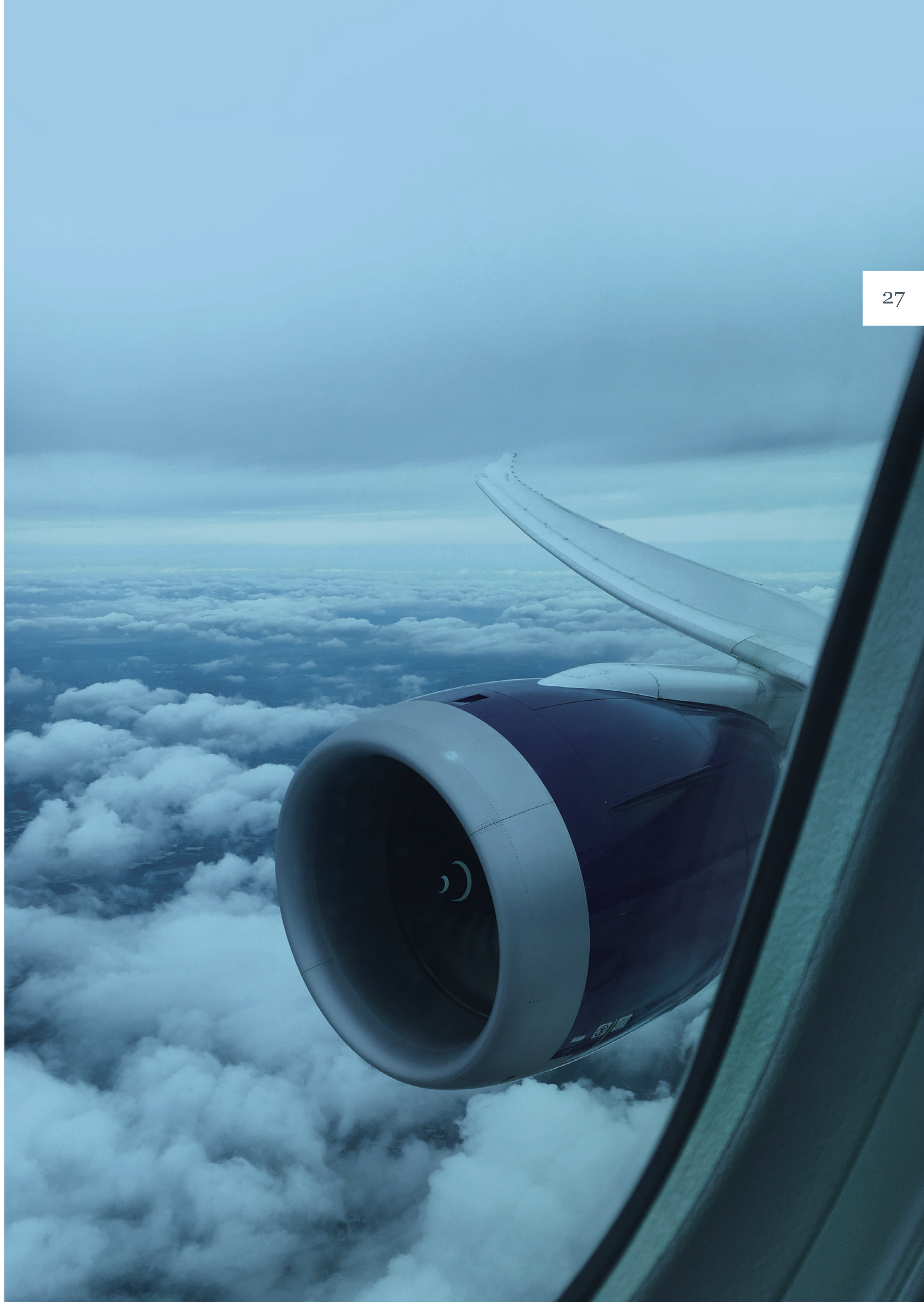

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