Marketing at the vanguard group flashcard

MARKETING AT THE VANGUARD GROUP In light of an evolving market, faced with new competitors, and after a careful analysis of their current customers, the Vanguard Group (hereinafter referred to as “ Vanguard”) realizes it must rethink its entire marketing strategy. However, in order to protect and leverage their competitive advantage, which is their low management fees, and to optimize the loyalty that their customers continuously demonstrate toward their organization, they must now target the most profitable segment for them, and develop the best way to serve and delight these customers. SITUATION ANALYSIS Highlighted SWOT Strengths Low fees strategy; •Consistently above average performance and competitiveness of the majority of Vanguard funds (Exhibit 2); •Quality driven corporate culture; •One of the highest loyalty scores in the industry, with a redemption rate under the industry average; and •Good reputation. Weaknesses •Low brand and advertising awareness; •Under-exploited customer database; •Vanguard sees marketing strictly as an expense, rather than a long-term investment; •Website is geared towards providing information instead of selling Vanguard products; and •Excessively low fee pricing policy doesn’t allow higher revenues when they perform better.

Opportunities •80 to 90% of Vanguard clients have funds in other organizations; •Investment opportunities with pension plan members to offer them additional services (cross-over), as well as to reinvest their pension plan earnings after they retire (roll-over); •Competitors are fleeing the under one (1) million dollar segment, which represents 8. 9 million households; •New opportunities for online transactions, which are low cost; and •Brokerage firms would be willing to sell Vanguard products in exchange of a fee/commission. Threats Two (2) major competitors in the below one (1) million dollar market (Vanguard’s relevant market segment), which are Fidelity and American Funds; •Financial Services deregulation allows major competitors to enter Vanguard’s line of business; •Slow growth rate across the mutual fund industry (Exhibit 3); •Most big companies (institutional clients) already have their retirement plans in place; and •Mutual funds sector experienced high redemption in 2002. IDENTIFICATION AND EVALUATION OF ALTERNATIVE STRATEGIES Identification and Preliminary Evaluation of the Alternatives Alternative 1: Concentrate on their current clients, broaden and deepen their relationship with them, while maintaining current offerings PROS: •Easier to market to current clients (Vanguard already has information about them and a direct way to communicate with them = low marketing costs involved) •More than 80% have funds in other organizations (big potential) •High satisfaction and loyalty rates •Strengthens the customer focus orientation •The needs of the below $1M segment are in line with the current Vanguard product offering •Important database of members involved in pension plans (through their employers) CONS: Clients may not want to put all their holdings with Vanguard •Not all the current customers are profitable •Vanguard may not offer all the products and services that these clients need •High net worth clients are expensive to serve Alternative 2: Target competitors’ market share by attracting customers from competitors in the mutual fund business PROS: •Increases the number of customers •Weakens competitors •Good reputation and high performance of Vanguard funds •Competitors are fleeing the under $1M segment CONS: •Not all the competitors’ customers are profitable for Vanguard •The competitors are also trying to keep their customers It's very costly to attract customers from competition Alternative 3: Develop new services and businesses (stocks, derivatives, foreign exchange, commodities and hedge funds, among other things) and become a full-service financial company PROS: •Increases the number of potential clients that might be interested in Vanguard •Increases revenues from other type of transactions •Better response to every type of client need CONS: •Need to hire new competencies •Have no experience in these businesses •Very costly to develop (either HR or acquisition) •A lot of competitors Contradicts their main competitive advantage (low fees) •Strays too far from Vanguard's values Alternative 4: Maintain the status quo PROS: •A satisfying overall financial situation •Already in a leading position •Lowest expense ratio in the IndustryCONS: •Major changes are to come, as outlined in the threats, which must be addressed •Contradicts the core value of constant improvement Alternative 5: Try to attract new clients through the development of an outside distribution network (intermediaries) PROS: •Increases the number of clients and potential clients (brand awareness) •Relatively low development costs High profitability of these clients (advice is given by intermediaries) •Expands qualified sales force at a low cost •Possibility to gain insightful information about their customers through intermediaries CONS: •Need mass advertising •A lot of competition in this customer segment •No control on the sale process •Intermediaries are not very reliable or loyal Alternative 6: Expand overseas PROS: •Enlarges the size of the potential market •Vanguard could increase operations and market share in Australia and Europe where they already have investmentsCONS: •Low brand awareness (in US and abroad) Very costly •Poor knowledge of these markets •Entry barriers Alternative 7: Focus on the institutional sector market PROS: •Have important knowledge and experience of pension fund management (40 % of their holdings) •High loyalty and satisfaction with current companies (regarding the management of their pension fund) •Expanding potential retail customers trough new companies involved with vanguardCONS: •Saturation of this particular market •Companies involved with competitors are unlikely to switch •Tough competition •High participant roll out Evaluation of the Most Interesting AlternativesFollowing the preliminary evaluation of the numerous alternatives, it appears that only two (2) alternatives are worth being analysed in greater depth. The first alternative of interest is Alternative 1: Concentrate on their current clients, broaden and deepen their relationship with them, while maintaining current offerings. The second alternative of interest is Alternative 5: Try to attract new clients through the development of an outside distribution network (intermediaries).

In order to analyse and evaluate more thoroughly these two (2) interesting alternatives, the following grid will be used. Each alternative will be evaluated with regards to the Profiles of Seven Investor Segments in the Investor Demand Study. For Alternative 5, we only analysed the investor segment called “ Advisor Dependents”, because we consider that the intermediaries’ customers must mostly be from this investor segment. Each alternative and/or investor segment will be evaluated from the following five criteria. The first set of criteria refers to the customers’ overall financial situation.

The probability of holdings of mutual funds in other organizations is the first criterion. The second criterion is the profitability of the investor segment.

The later takes into consideration the level of income of the investors and their advice dependency, among other factors. The second set of criteria evaluates the investor segment's needs by comparing Vanguard's offering or potential offering.

The first criterion is the actual matching of the investors' needs to products and services currently offered by Vanguard. We also anticipate what would be the costs of actions to be implemented in order to provide the investor segment with the additional services it must need. The last criterion is the expected return on investment. For this criterion, we considered most of the other criteria, as well as the level of competition in the relevant segment. Evaluation Grid AlternativeInvestor SegmentProbability of holdings in other organizationsExpected ProfitabilityMatching with Vanguard's current offeringCost of action to be implementedExpected return on investment 11 ; 2InexistentLowLowN/aInexistent 3LowMedium to highLowLowHigh 4Low to mediumMedium to highHighLowHigh 5HighLow mediumHighLowLow to medium HighHighHighLowMedium to high 7HighHighLowMediumMedium 55HighHighHighMedium to highLow to medium The Profiles Investor Segments in the Investor Demand Study are listed as follows: 1-Financial Avoiders; 2-Live for Todayers; 3-Strivers; 4-Complacent Independents; 5-Adviser Dependents; 6-Managers; and 7-Players.

RECOMMENDATION AND RATIONALE Following the evaluation, we strongly recommend that Vanguard concentrate on their current clients, broaden and deepen their relationship with them while maintaining current offering (Alternative 1). The investor segments on which Vanguard should particularly focus are the Strivers, the Complacent Independents and the Managers.

From the current customers, more than 80% have funds with competitors. These customers, as well as all the customers that Vanguard has through the management of the pension plans of their institutional customers, would be more accessible to market to, and also easier to obtain information on. Therefore, no mass advertising would be required.

Because the knowledge of the customers is an essential part of an effective and efficient marketing campaign, a new data warehouse shall be implemented in order to collect some relevant information about the customers, and to classify the existing customers in the appropriate investor segment. The web site shall also be developed and emphasized on, in order to lower the costs related to the transactions, and to best serve the increasing number of customers that prefer to do their transactions online. The below one million segment of customers is of particular interest for Vanguard. For this reason, Vanguard should focus on the Strivers and the Complacent Independents. Although the Strivers have limited income and holdings, their willingness to improve their situation leads us to think that the expected profitability and return on investment are high. In order to serve this particular segment of investors, Vanguard will have to develop its internet tool for brokerage, for which the cost of implementation is considered as being low.

The Complacent Independents, although having a medium level of income, are very easy to serve, having a low level of advice dependency. The products and services they are using also match Vanguard’s offering. The low level of supplementary actions to be implemented, combined with a decreasing competition for this segment of investors, as the competitors are fleeing from the below one million segment, leads to the expectation of high return on investment. Finally, even though the Managers are unlikely to be in the below one million segment, we believe that they are worthy of interest for Vanguard. Their high level of income, combined with their low level of advice dependency, makes their expected profitability high.

However, even though the products and services that they are looking for are matching Vanguard's offering, the high level of competition in this investor segment mitigates the expected return on investment. Despite this last fact, the Managers are nonetheless an investor segment that Vanguard should aggressively market. The other investor segments of this alternative should not be focused on for the following reasons. The Financial Avoiders and the Live for Todayers have no money, and it is pretty self-explanatory that they are not possible Vanguard's customers. The Adviser Dependants are also left aside, mostly because of the high costs related to serving them.

This leads to think that they might be unprofitable customers. There is also a lot of competition towards this investor segment. Finally, the Players are also disregarded in this recommendation. Even though they have a lot of money and could be relatively low cost to serve (through the development of an online trading platform), the kind of products that they are looking for does not match Vanguard's offering.

There is also a lot of competition for this investor segment. These factors combined lead to relatively low return on investment for marketing to them. We also disregarded Alternative 5: Try to attract new clients through the development of an outside distribution network (intermediaries). This situation seemed interesting for Vanguard because of the exponential increase in the number of potential clients, whom Vanguard doesn't have to directly advise and serve about their products and services, combined with the high potential for profitability.

The development of this broad qualified sales force could also be done at relatively low development cost. The positive aspects of this alternative are somehow strongly counterbalanced by the fact that huge efforts of mass advertising would be required in order to inform the potential customers about Vanguard's brand, and over whom Vanguard would have no control in the sale process. Vanguard would also have to face some strong competition in its relation with the intermediaries, who are not always the most loyal sales representatives. This weakens the expected return on investment for this alternative, and finally led to its rejection.