

## *Situation*

Our client, a major player in the US asset management and insurance business, created a new business model aimed at bringing managed accounts to a broader group of consumers. Managed accounts are a product typically aimed at wealthy individuals and have not traditionally been available to the mass affluent market. The business model leveraged the client's core strength, which was its relationship with thousands of independent financial advisors. The client was faced with the question of how much and how quickly it should invest in the new business to maximize its return.

## *Approach*

In cooperation with the client management team, Avondale consultants developed a financial pro forma and developed various investment scenarios for consideration. This was accomplished by estimating cost to build out the necessary back-office and distribution infrastructure, understanding the sales and marketing investment under various scenarios, and modeling various pricing schemes. For each of the various investment scenarios, the team calculated the overall return on investment and annual profit contribution. They also incorporated sensitivity calculations for various levels of assets under management and competitive response.

## *Result*

The team learned that a large, up-front investment was needed to get the business to scale and reach profitability as rapidly as possible. The longer it took for the business to reach profitability, the more the client would need to invest in the venture and the larger the potential for competitive entry. The management team determined that the best course of action was a targeted marketing/sales investment to capture the most valuable customers and a heavy investment in infrastructure to create a superior customer experience.