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COMPANY PROFILE

The Vanguard Group, Inc.

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COMPANY OVERVIEW

The Vanguard Group, Inc. (Vanguard or "the company") is an investment management company that offers a selection of low-cost mutual funds, exchange traded funds (ETFs), advice, and related services to individual investors, institutions, and financial professionals. Vanguard operates in the Americas, Europe and Asia Pacific. It is headquartered in Valley Forge, Pennsylvania and employed over 14,000 people as at December 31, 2015.

The Vanguard Group, Inc. is a privately-held company and has not released its 2015 annual report. Hence, the financial details are not available.

KEY FACTS

Head Office	The Vanguard Group, Inc. Valley Forge Pennsylvania 19482 USA
Phone	
Fax	
Web Address	www.vanguard.com
Revenue / turnover ()	
Financial Year End	
Employees	14,000
Ticker	

SWOT ANALYSIS

The Vanguard Group, Inc. (Vanguard or "the company") is an investment management company that offers a selection of low-cost mutual funds, exchange traded funds (ETFs), advice, and related services to individual investors, institutions, and financial professionals. The company's cost leadership enables it to maintain a competitive advantage over its peers, as it attracts cost conscious investors. Moreover, low operating expenses compared to industry average enhances Vanguard's customers' returns. However, lack of support from brokerage houses and independent agents reduces bulk transactions where Vanguard can earn better margins (primarily due to low costs per transaction).

Strength	**Weakness**
Low operating expenses compared to industry average enhances customer's returns Balanced business operation helping sustenance during rough times Reputation and customer loyalty ensuring repeat business	Lack of support from brokerage houses and independent agents affecting bulk transactions Weak international presence hampering the customer reaches with high appetite for investments in emerging markets
Opportunity	**Threat**
Growing global asset management and custody banks sector The US retirement market expansion likely to sustain demand for Vanguard's services	Strong competition outside the US, and in retail channels Regulatory changes leading to higher operational costs

Strength

Low operating expenses compared to industry average enhances customer's returns

Vanguard has been frequently singled out as a low-cost fund family. Expense ratio which represents the cost of operating a mutual fund, including investment advisory fees, administrative costs, and shareholder-service expenses, provides a measure of the fund costs. Expressed as an annual percentage of a fund's average net assets, these costs may range from under 0.10% to more than 2.2%. In 2015, the average expense ratio for Vanguard funds was 0.18% which was far lower than the industry average of 1.08%. The company's cost leadership enables it to maintain a competitive advantage over its peers, as it attracts cost conscious investors. Moreover, low operating expenses compared to industry average enhances Vanguard's customers' returns.

Balanced business operation helping sustenance during rough times

Vanguard operates a balanced business operation. It has maintained a balance mix of assets and clients over the years. The company's asset base is spread across stock, bond, and money market funds.

Additionally, its client base also has a 50/50 split of retail and institutional businesses. Balanced mix of asset base helps the company to conveniently absorb a rough patch in any one area, as it did with money market funds in 2015.

Reputation and customer loyalty ensuring repeat business

Mutual fund industry in the US was rocked by scandals in 2003. Regulatory agencies investigated some of the mutual funds and fined them for charges relating to market timing and late trading. However, Vanguard came clean after investigations. This has enhanced the company's reputation and helped it gain customer loyalty. In 2007, Cogent Research, a value-added market research and strategic consulting firm released rankings of mutual fund firms, categorizing them as stars, leaders, players or drifters. Vanguard was ranked number one on the list. The consulting firm applied its predictive model to show those firms poised for future growth and those which are not. Cogent Research uses customer loyalty, ownership, revenue and equity of brand to rank companies. Vanguard and Fidelity were the two mutual fund companies that earned Star scores. Moreover, Vanguard generated star scores across all four measurement areas, the only firm to do so, and leads in customer loyalty, as well as revenue per relationship. In 2013, Vanguard's clients continued to show their faith in Vanguard and in the value of long-term investing. Throughout the year 2015, purchases of Vanguard funds were very strong, while redemptions out of Vanguard funds remained modest. Customer loyalty and reputation helps Vanguard ride tough times when customer confidence in the investment markets is low besides attracting new customers in boom times.

Weakness

Lack of support from brokerage houses and independent agents affecting bulk transactions

Brokerage houses and independent agents usually do not recommend Vanguard funds as Vanguard doesn't pay any commission to them. The lack of support is a weakness during crisis in equity and other asset class markets. Vanguard's major competitors enjoy support from brokerage houses and independent agents. As a result, even during turbulent times they are able to attract more new money into their funds when compared to Vanguard. Lack of support from brokerage houses stymies the company's growth when retail investors' confidence in the market is low due to lower returns. Lack of support from brokerage houses and independent agents reduces bulk transactions where Vanguard can earn better margins (primarily due to low costs per transaction).

Weak international presence hampering the customer reaches with high appetite for investments in emerging markets

The company's operations are limited to US, Netherlands, Japan, Hong Kong, the UK, France, Switzerland, Canada, Singapore and Australia. Vanguard's competitors have presence in other important locations in regions such as Europe, Middle East, and Africa. Moreover, many of Vanguard's competitors have expanded to countries such as China, India, Brazil and Mexico. The company could find itself in disadvantaged position to aggressively market emerging market investments. Additionally, international presence in key locations in the asset management industry could enable the company to attract and retain talented asset managers. Weak international presence hampers its ability to attract customers whose appetite for investments in emerging markets is high.

Opportunity

Growing global asset management and custody banks sector

The global asset management and custody banks sector experienced growth after recording a decline in 2008. The global asset-management industry rose by 7% to $102 billion in 2014, matching its historic peak reached in 2007. Globally, assets under management increased 8% in 2014 to a record $74 trillion a healthy advance but slower than the pace in recent years, including the 13% increase in 2013. According to industry experts, the asset management and custody banks sector will rise to around $101.7 trillion by 2020, representing a compound growth rate of nearly 6%. The main factors driving this growth include the need for private individuals to make provision for their pension requirements. The growing demand for the asset management industry could leverage the company's presence to benefit from this positive outlook and grow its revenues. With its strong foot holdings in this sector, Vanguard is well positioned to benefit from the growing global asset management and custody banks sector.

The US retirement market expansion likely to sustain demand for Vanguard's services

With the aging of the baby boomer generation, the demand for pension and retirement products is seeing a surge. There are about 76 million boomers in the US approaching retirement age and overall about $20 trillion in retirement savings are at stake. The US Census Bureau estimates that by 2030 almost 20% of Americans will be 65 or older. Moreover, according to estimates, about three-quarters of boomers have no plan in place to create reliable retirement income. There is considerable scope for further improvement in the US retirement market. The US retirement market expansion is likely to sustain demand for Vanguard's services.

Threat

Strong competition outside the US, and in retail channels

Vanguard competes with investment management firms, mutual fund companies, insurance companies, banks, brokerage firms and other financial institutions that offer products that are similar to, or alternatives to, those offered by Vanguard. The company effectively competes with other firms to secure mandates from institutional investors. But certain of the company's competitors have greater marketing resources than Vanguard, particularly in retail channels and outside the US. These factors may place Vanguard at a competitive disadvantage.

Regulatory changes leading to higher operational costs

Since the beginning of subprime crisis, regulatory scrutiny of asset management industry has become more stringent. Regulatory changes have led to increase in the costs of fund management business. For instance, the US Department of Labor is pursuing new rules for those covered by 401(k), pension and other retirement arrangements. Also on the table are Securities and Exchange Commission (SEC) amendments to Rule 2a-7, which tighten the risk-limiting conditions imposed on tax-exempt money-market funds and impose additional disclosure requirements on tax-exempt funds. Compliance with new rules and regulations is very costly and burdensome to the investment advisor. Consequently, asset managers' operational costs have gone up, pressurizing the mostly tracked profitability measures such as return on assets (ROA) and return on equity (ROE).