

Research on Development Mode of Investment Consulting Business of Western Securities Co., LTD

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Abstract: In recent years, securities companies have continuously promoted the transformation and upgrading of their business operations to adapt to the ever-changing market. The development of investment advisory services has become a breakthrough point in the business planning and transformation of major securities firms. Western Securities Company, leveraging its own business strengths, strives to find ways and strategies to enhance its business brand and core competitiveness. This paper uses the SWOT model to analyze the macro-operating environment of the investment advisory business of Western Securities Company, identifies the issues and their causes in the development of investment advisory services, and suggests that to gain an edge in industry competition, it is essential to improve internal management issues of investment advisers. By vigorously developing investment advisory services through innovation, the company can accelerate its overall transformation and development. Finally, the paper provides recommendations tailored to the company's development status to cope with the ever-changing market.

1. Introduction

So far, the Chinese securities market has gone through 30 years of glorious years. As influential players in the capital market, securities firms serve as bridges between financiers and investors, playing a crucial role in communication. Therefore, whether the development of securities firms is healthy and smooth directly affects the rise and fall of the capital market. In 2018, the average net commission rate of brokerage business in the securities industry had dropped to 0.388%, only one-third of what it was ten years ago, and the ratio of brokerage business revenue also decreased from 46.79% in 2015 to 23.41% in 2018. With the promulgation of the "Interim Measures for the Administration of Securities Investment Advisory Business," major securities firms have set up dedicated wealth management departments or restructured their existing investment advisory departments to better develop investment advisory businesses, thus reducing excessive reliance on traditional channel-based businesses and enriching their own business structures. However, for most securities firms, only with a higher level of comprehensive service capability can they better develop investment advisory businesses, which presents both an opportunity and a challenge.

In recent years, Chinese securities firms have generally experienced losses. In the fierce market competition, the losses of individual companies have evolved into systemic and operational losses. When carrying out investment advisory businesses, securities firms face dual pressures from the

market and themselves. Therefore, how to correctly develop investment advisory businesses is an important issue for every securities firm. If investment advisory businesses can bring significant expected returns to securities firms, they are also willing to invest more manpower and financial resources in the research and development of investment advisory products.

Based on the specific development status of Western Securities, combined with the current fiercely competitive market situation and trends, and integrating theoretical knowledge with practical experience, comprehensively analyzing and evaluating the internal and external environments of Western Securities, while appropriately improving or avoiding shortcomings and deficiencies, comprehensively enhancing the development of investment advisory business is of great significance for the future development of investment advisory business of Western Securities.

2. Literature review

This literature review focuses on the following aspects: first, it discusses the necessity of transforming and upgrading the investment advisory business. Second, it examines the current status, existing problems, and improvement paths for the investment advisory business of Chinese securities companies.

Considering the transformation and upgrading of the investment advisory business in securities companies, it is considered that when a securities company reaches a certain level of assets and has a sufficient number of clients, it can temporarily halt brokerage business at an appropriate time and expand the businesses that contribute significantly to its revenue, thereby promoting its transformation towards wealth management and investment advisory services^[1]. Someone concluded through analysis that business departments should transition from being transaction processing centers to "wealth management centers," building a comprehensive business center model that integrates service product display, channel contact, customer service, and marketing^[2].

Domestic investors are not yet very familiar with the concept of diversified investment portfolios, so they generally choose products that invest in domestic markets, such as stocks, bond funds, or money market funds. In recent years, the investor base has been growing, and their education level, professional capability, and investment needs are also increasing. Therefore, single asset classes and domestic investments can no longer meet their needs. Based on the single asset structure, Someone proposed that a good investment advisor can assist investors in optimizing their portfolios according to their requirements and attract funds from other mature foreign markets^[3]. It is suggested that in the era of securities investment funds, securities companies should improve the level of investment consulting services^[4].

Secondly, through the investigation and analysis of the current status and problems of domestic securities companies engaged in the investment advisory business, corresponding improvement measures are proposed. Someone explored the specific methods for the transformation of C Securities Company, proposing a shift from brokerage business to wealth management, putting clients first, adhering to investment suitability, and applying financial technology^[5]. This approach should focus not only on mid-to-high-end clients but also include public financial management. Someone used various analytical tools and methods to conduct an in-depth analysis of the industry environment and the difficulties faced by Z Securities Company, ultimately summarizing the issues within its investment advisory business system at the time^[6]. Somebody used S Securities Company as a case study to qualitatively and quantitatively analyze the current investment advisory service models of securities companies^[7]. Finally, the author pointed out that cultivating a professional marketing team with higher professional levels and a broader range of product types is very helpful in building a new type of investment advisory model, which can help mitigate the trend of declining transaction commissions for small and medium-sized securities companies.

3. Analysis of the current situation of the development of western securities advisory business

3.1 Current situation of investment advisory business of western Securities Company

Western Securities' main business includes securities brokerage, proprietary trading, client asset management, investment advisory, investment banking, margin financing and securities lending, research and development, futures, fixed income, over-the-counter market, and other services. The company has been dedicated to the development of the western region and has become a leading enterprise in Shaanxi Province. The company's research and consulting business will continue to focus on four dimensions: in-depth exploration of institutional clients, iteration of core product development, shaping external influence, and optimizing internal operational systems. Through active exploration in these areas, the company was eventually awarded the second place in the "2019 New Fortune Most Promising Research Institution."

3.2 SWOT Analysis

Based on the previous analysis, we can construct a SWOT analysis of the internal strengths and weaknesses, and external opportunities and threats faced by Western Securities Co., Ltd.'s investment advisory business as follows:

3.2.1 Competitive Advantages

a. Abundant Client Resources:

Extensive client resources are the greatest asset in the financial industry. The traditional brokerage business, being the company's strong suit, has accumulated a vast client base over the years, providing a solid foundation for the development of the investment advisory business. In recent years, Western Securities' investment advisory business has been growing rapidly. Initially prioritizing high-end services for long-term, stable clients, the company has expanded its client base and geographical reach based on practical experience, leading to a continuous and rapid increase in both the number of signed clients and the assets under advisory.

b. Organizational Structure Management:

Western Securities Co., Ltd. implements unified management of its securities investment advisory business and personnel. This includes periodic guidance, supervision, and inspection of the investment advisory activities at branch offices, the development and evaluation of investment advisors, and risk management. Branch managers are the primary responsible individuals for the investment advisory business at their locations, overseeing business development, performance evaluations of advisors, and team building.

3.2.2 Competitive Disadvantages

a. Lack of Brand Effect:

Currently, major securities firms in the investment advisory industry face substantial competition and homogeneity. Western Securities' investment advisory business is generally divided into service, information, and product categories, each with different products under them. However, the overall design is quite similar, making it difficult for the products to leave a lasting impression on consumers or form a strong brand effect.

b. Insufficient Human Resources:

The securities industry is knowledge-intensive, necessitating high-quality investment consulting talent. Due to increasing industry competition and the rapid future development of investment advisory business, the company faces not only a shortage of talent reserves but also the risk of

losing excellent personnel. A lack of sufficient skilled investment advisors will directly affect the company's business development speed.

3.2.3 External Opportunities

a. Increasing Demand for Personal Wealth Management:

With the continuous diversification of financial products, traditional bank deposits can no longer meet people's wealth management needs. Over the past two years, internet finance has rapidly developed, and the stock market has significantly rebounded, leading to a clear trend of RMB deposits flowing into the capital market. This provides favorable external conditions for the rapid development of China's investment consulting industry.

b. Financial Reforms Improving Market Maturity:

As the capital market matures, the securities industry, being the most benefited and promising sector within the financial industry, has become a crucial part of China's capital market. In the coming years, the entire securities industry will continue to benefit, with securities firms thriving from the market improvements. The capital market's advancements have enabled high-quality securities companies to diversify and specialize their services, leading to better development.

3.2.4 External Threats

Through the analysis using the Porter Five Forces model, we can clearly understand the external threats faced by Western Securities' investment advisory business development.

a. Threat of Competition Within the Industry:

There are numerous securities firms in China, with a tendency towards uniformity in operating areas and profit structures, making market competition increasingly fierce. Since innovative businesses like investment advisory services have not been established for long, no monopoly has formed in terms of revenue share among major securities firms. Therefore, excellent investment advisor talent and high-net-worth clients are the main points of contention within the industry.

b. Threat of Competition from Commercial Banks:

China's financial industry operates under a system of segmented management with strict regulation. As financial system reforms deepen, the industry may shift towards integrated operations in the future, leading to more intense competition between securities firms and banks. Commercial banks, having the largest customer resources and being the primary source of customers, will hold a significant advantage once integrated operations begin.

Using the SWOT analysis model, we can identify that Western Securities' investment advisory business has certain advantages in terms of client resources, organizational structure management, and growth momentum. During development, the company should leverage its strengths, mitigate its weaknesses, and align with national economic development and the needs of the people to achieve a leap forward in the investment advisory business.

4. Main Issues and Causes in Western Securities' Investment Advisory Business

4.1 Main Issues in Western Securities' Investment Advisory Business

As a crucial entry point for transforming its brokerage business, Western Securities has conducted a top-down analysis of its investment advisory services. The results indicate the following issues and challenges:

4.1.1 Homogenized Service Content and Single Format

Currently, investment consulting services in China's securities market have become monolithic, primarily focusing on stock recommendations supplemented by standardized information products. Traditional brokerage business has mainly focused on stock investments. Due to these limitations, in the early stages of developing investment advisory services, practitioners also concentrated more on stocks. Consequently, there is a limited understanding of the broader scope of investment advisory services, which restricts the range of services offered.

4.1.2 Difficulty in Forming a Stable Profit Model

Most investment advisory services aim to increase clients' transaction commissions through differential commission billing methods. With the marketization of commission systems and intensified channel competition, differentiated commission fee models have become the most direct choice for securities companies to stabilize declining commission revenues. However, only a small portion of clients contribute to commission revenues. Overall, the current fee model in the investment advisory industry in China is not widely accepted by clients.

4.1.3 Insufficient Number and Professional Skills of Investment Advisors

Currently, the number of investment advisors is inadequate to meet client demand effectively. Investment advisors are central to the development of investment advisory services. However, there are three main issues regarding personnel allocation:

Insufficient Number of Advisors: The current number of investment advisors is insufficient to meet the growing demand from clients. Although the number of registered investment advisors in securities companies increases annually, it still lags behind the growth rate of the client base.

Role Misalignment: Western Securities does not clearly define the role of its investment advisors, leading to a situation where advisors handle multiple roles and cannot focus exclusively on investment consulting.

Lack of Structured Team Building: Branch offices lack clear processes for the entire investment advisory business. There is an absence of awareness regarding structured team building, resulting in low organizational efficiency.

4.2 Analysis of the Causes of the Issues

4.2.1 Blurred Positioning of Investment Advisory Business

The main reason for the unreasonable setting of the investment advisory business is due to Western Securities Company's unclear positioning of the investment advisory business, specifically in three aspects: client positioning, product positioning, and investment advisor positioning.

During the process of conducting investment advisory business, the lack of understanding of the clients' true needs results in the inability to provide targeted services.

As the number of investors increases, their level of expertise also rises, leading to higher demands for the compatibility and professionalism of investment advisory products and services. Therefore, reasonable product positioning in the investment advisory business is crucial.

In the early stages of the development of the investment advisory business, there are high requirements for talent, and there is a certain gap in the allocation of investment advisors at branch offices.

4.2.2 Regulatory Constraints and Strategic Homogenization Leading to Single Product and Service Offerings

In China, securities investment advisory services primarily focus on providing investment consultation, with Western Securities mainly offering stock investment services. The lack of product and service diversity is closely related to current regulatory requirements. The "Interim Provisions on Securities Investment Advisory Business" clearly states that clients should make their own investment decisions and bear the investment risks independently, fundamentally separating asset management from investment advisory services. This makes it difficult to provide customers with suitable solutions and investment guidance, resulting in limited value creation during the commercial process and inefficient use of resources, which prevents maximizing customer value.

4.2.3 Insufficient Support for the Selection and Professional Development of Investment Advisors

The development of the investment advisory industry requires specialized talents across various fields. However, currently, Chinese securities companies show relatively low emphasis on this aspect, displaying weaknesses in talent selection. Securities investment consulting companies are primarily limited to one statutory business—securities investment advisory—leading to a single business model, which is a significant issue. Due to license restrictions and the uniformity of business models, there are substantial differences among investment consulting companies, leading to unremarkable revenue and profit situations and limited professional training support for investment advisors.

Western Securities is striving to develop investment consulting services, but achieving substantial results will take considerable time. The company is still in the exploratory stage of its investment advisory business, and the division of interests between the headquarters and branch offices further complicates matters. Establishing and implementing a complete and professional investment advisor training mechanism will require time.

5. Conclusion

The investment advisory business is an inevitable product of the maturation of the securities market and a primary reason for the transformation of most securities firms from traditional brokerage firms to service-oriented brokerages. Western Securities' investment advisory business faces intense competition in the market and numerous challenges. To gain an edge in the industry competition, it is essential to address internal management issues of investment advisors, innovate vigorously in developing the investment advisory business, and accelerate the overall transformation and development of the company. Although the path to business transformation is arduous, it is necessary to face the challenges head-on, enhance customer experience through high-quality services, overcome the current challenges, and mitigate the significant impact of market economic cycles on the company's business development.

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