Denny Ellison
Analyst Training Program

Five Key Constraints to Sell Side Equity Research Analyst Productivity

A survey-based study of analysts' key challenges and the support they need early in their careers

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Summary and Findings

The objectives of this report are to identify and rank the key factors that influence sell side equity analysts' productivity, determine which specific areas are particularly challenging early in their careers, and identify the assistance and solutions that analysts value the most for increasing their productivity and accelerating their development.

Based on our analyst survey as well as industry observations, we have identified three main groups of analysts, depending on their performance level. The "rising stars" are analysts who outperform their peers in almost all areas, from modelling to making presentations, writing, and coming up with quality investment theses. Rising stars allocate their time across the different activities appropriately, try to be as efficient as possible and are constantly looking for ways to improve the whole set of their skills.

The "specialists" are analysts who are very good in one or two areas. They are likely to spend most of their time on these activities, where they feel comfortable. A large proportion of analysts in this group are typically strong at modelling and financial analysis. However, they tend to neglect or not allocate enough time to the other important activities, such as interacting with clients or building solid investment theses.

Finally the "improvers" are analysts who are average or below average overall, with no particular areas of expertise or strength. They tend to have poor time management and prioritisation skills, and struggle to be productive in most areas. They are often the analysts with the lowest levels of motivation.

How analysts perform early in their careers does not just depend on their levels of skill across different activities, but also on how they spend their time and how much they seek to improve their abilities. A large proportion of junior or "early-career" analysts may not realise the importance of "continuously seeking to improve each and every one of their skills".

We have identified 5 key factors that influence analysts' skills development and productivity: time management, having best practice examples, support from their manager, having the right core analyst skills, and motivation.

The factor that has the strongest impact on analysts' performance is time management, with more than 80% of analysts who took our survey answering that it is a problem in their jobs. Having enough best practice examples and receiving the appropriate support from their manager also have a strong impact, with around 70% of answers each.

When asked about each of these factors in more detail in our survey, early-career analysts have clearly voiced that their biggest challenge relates to interacting with clients. Around 80% of them need more help with managing their client interactions, and 70% want to spend more time with clients and would appreciate more support from their manager in this regard.

In order to improve their commercial skills, analysts want to be more efficient when it comes to modelling and writing research notes. They would particularly value best practice examples in these areas.

Regarding how analysts would respond to different incentives, more than 90% answered that the opportunity to learn and improve had the strongest impact on their motivation level. Interestingly, promotion and pay still had a strong but more limited impact.

In terms of the assistance and support that analysts would value the most, mentoring ranked the highest. Having appropriate best practice examples, sharing ideas with peers, and taking part in training classes were also valued highly. Within the training classes, a large proportion of analysts responded that they would value more help with modelling, as well as with how to interact with sales and clients.

Keywords: Sell side equity research analysts, productivity, writing research notes, modelling, building investment theses, building knowledge, data analysis, interacting with sales, interacting with clients, interacting with companies, managing careers, time management, best practice examples, support from manager, core analyst skills, motivation, mentoring, analyst peer group, training.

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A. Context and Objectives

The job of an equity research analyst requires a large set of skills and competencies. They include building investment theses, creating company models, marketing notes to asset managers, working with sales, and maintaining many other internal relationships within the firm.

We estimate that it takes analysts between 3 and 7 years to start performing well in all the different aspects of the job, and to finally start creating real value for the investment community i.e. generating good investment ideas and providing differentiated insight on stocks and companies.

With pending regulatory changes to the industry (e.g. MiFID II in Europe) and continued pressure on the revenues of research providers, the emphasis on analysts' "quality of research" and their ability to generate value for the buy side is likely to be increasingly important in the coming years.

So why does it take research analysts so much time to "perform" for their employers? Why is there such a variance in the number of years analysts require to get "up to speed"? What do they need to become more productive more quickly? Have their voices been heard enough by the research management of their firms?

We aim in this survey-based study to i) Identify and rank the key factors that influence analysts' productivity early in their careers, ii) Determine which specific areas are particularly challenging for analysts within each of these factors and iii) Identify the solutions and support that analysts value the most for increasing their productivity and accelerating their development.

B. Survey Design and Delivery

We have conducted a proprietary online survey using Qualtrics and Survey Monkey. The survey was distributed directly to sell side firms and to analyst groups. It was distributed to around 150 sell side analysts with between zero and five years of experience, and the response rate was approximately 20%. The responses were all anonymous.

About 35% of the equity research analysts who completed the survey had less than 2 years of experience, 31% had 2-3 years of experience, and 34% had more than 3 years of experience. In addition, 55% of the analysts worked in bulge bracket sell side firms, 21% in mid-tier organisations, and 24% in boutique / independent / regional firms. The analysts were mainly located in London, with others in Paris, Edinburgh, Frankfurt and Milan. Around half of the analysts already had stocks under their own coverage. Analysts covered all sectors.

C. Five Key Factors That Influence Analyst Productivity

After looking across equity research departments and observing the level of success and performance of analysts with less than 5 years of experience, we have identified three main groups:

i) ***The "Rising Stars".*** They outperform their peers in most activites (such as modelling, writing research or working with sales), and have promising career prospects. They are the most efficient when performing a task, and spread their time carefully across different activities. These analysts have developed superior skills in most areas and are constantly seeking to learn more.

2) ***The "Specialists".*** They are particularly good in one or two areas, on which they spend more time than others, but they tend to "neglect" other activities. Some analysts might be particularly skilled at writing research reports, others could have a great relationship with their specialist or generalist sales, while others might be very disciplined about calling their clients regularly. However, this group does not perform as well as the "Rising Stars" because there are other aspects of the job that they are struggling with.

3) ***The "Improvers".*** These analysts are average or below average in all activities, with no particular areas of expertise. They often struggle to accomplish all the different tasks required and lack prioritisation skills. They don't seem able to find the time to improve their abilities, and they accomplish tasks fairly slowly. This group of analysts also tends to have the lowest levels of motivation.

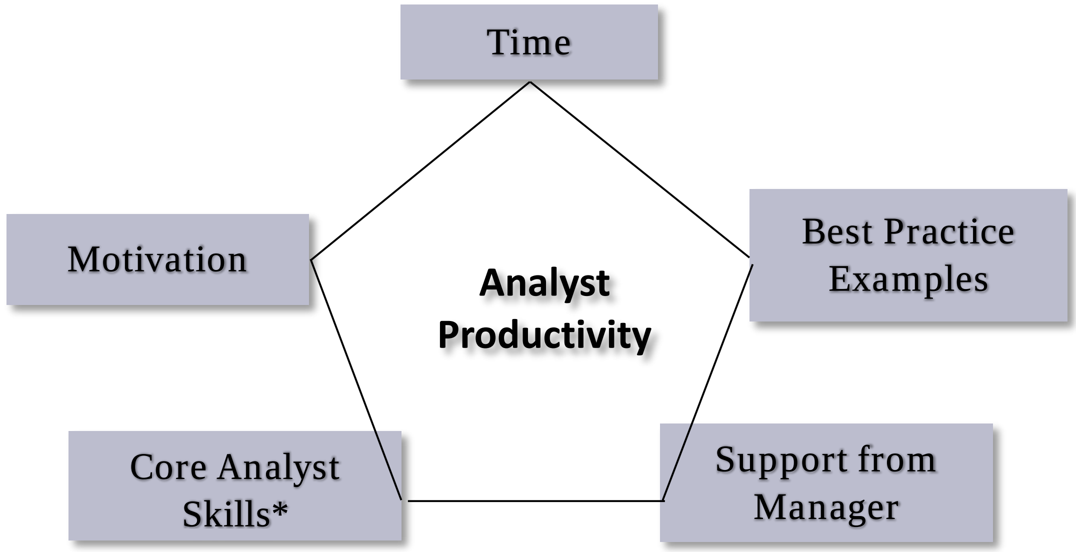
It became clear that how analysts perform early in their careers would not just depend on their levels of skill across the different activities, but also on how they would allocate their time between them, and seek to improve their weaknesses. The better they allocate their time and improve their skills, the higher their productivity and performance and, ultimately, the higher their motivation levels.

What struck us as one of the clearest messages from this survey was that junior analysts may not fully realise the importance of "continuously seeking to improve each and every one of their skills". With this realisation comes the initiative to seek out best practice examples and ask for more support from their managers. Focusing on "all skills" rather than only the ones where they are the most comfortable, would lead analysts to allocate their time more efficiently, prioritise better and ultimately be more efficient overall. With this evolution, analysts can stop being "improvers" or "specialists" and work towards becoming "rising stars".

We have identified 5 key factors that influence analysts' productivity and success. In our survey, we asked each analyst to think carefully about each of these factors and identify specific areas of challenge. We then suggested different solutions, and asked them how they would value the additional support.

The 5 factors are time management, having best practice examples, support from their manager, having the right core analyst skills, and motivation.

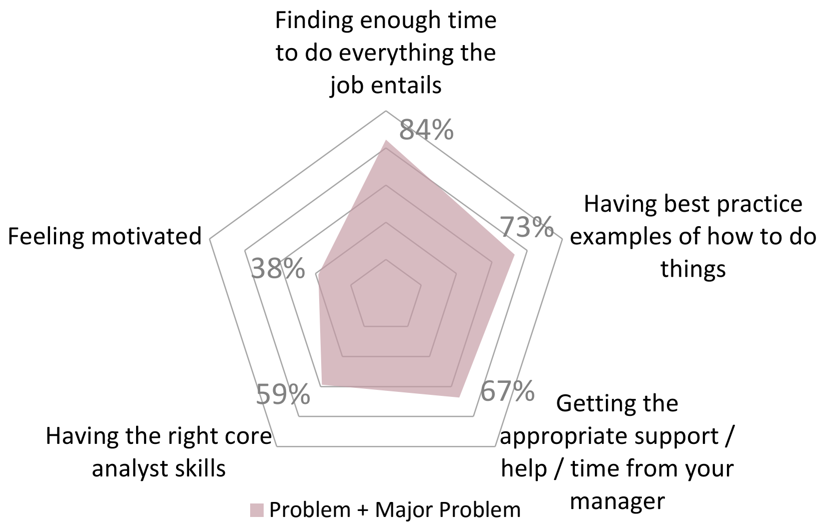
Chart 1: 5 Key factors that influence analyst productivity



* Core analyst skills include: data analysis, modelling, writing, shaping investment theses, building knowledge on companies, interacting with clients, interacting with sales, and interacting with companies.

When asked which of these factors are the most challenging for them, more than 80% of analysts responded that finding enough time to do everything the job entails is a problem. Having best practice examples and the appropriate support from their manager were the second and third strongest constraints. Having the right core analyst skills (such as financial analysis, writing, and interacting with clients) was also seen as an important issue (59% of responses). Finally, feeling motivated was the lowest of the constraining factors, but a significant minority (15%) still thought it was a major problem, while 38% thought it was either a problem or a major problem.

Chart 2: How much of a problem are the factors below in your job as an analyst?



We give more details on each of these factors in the following sections of the report.

1. Time Management

"Time is the scarcest resource, and unless it is managed nothing else can be managed", according to Peter Drucker, the management consultant who introduced the concepts of "management by objectives" and "self-control".

Whilst more than 80% of the analysts in our survey indicated that time management is at least a problem, 60% said it was a major problem for them. This was the single biggest challenge identified by these early-career analysts.

Most analysts who start in equity research already have a high amount of self-discipline and workload management. As with any new position, a newcomer will need to work on being more efficient, learning ways to do tasks quickly, and following a priority list.

The difference with the job of an equity research analyst, is that not only is there a wide range of different tasks to achieve in a day, but to the eyes of someone with relatively limited experience, they all seem as important as each other. From calling clients to working on a model, writing a report, speaking to sales, or talking to a company, all aspects of the job seem equally important and deserving to be at the top of the priority list. The sense of what should be a top priority generally comes with experience, but senior analysts aren't always giving clear prioritisation advice to their junior analysts.

For analysts early in their careers, this "multi-tasking" challenge is exacerbated by the fact that they often have to deal with ad-hoc requests and being interrupted on a task because another one has just come up. For example, when working on a model, the publication of a press release by a company would require analysts to suddenly drop what they were doing and focus on the news flow. Client calls should usually also take priority over anything else analysts were doing at the time.

Finally, analysts early in their careers are likely to take much more time than a senior analyst would to do the same task. This obviously gets better with experience, but the analysts' own discipline in looking for ways to be more efficient could be a key determinant of how quickly this gap is closed.

So what are analysts especially struggling with when allocating their time, what are they spending too much or too little time on, and where would they like to be more efficient?

Chart 3: How much of a problem are the factors below in your job as an analyst?

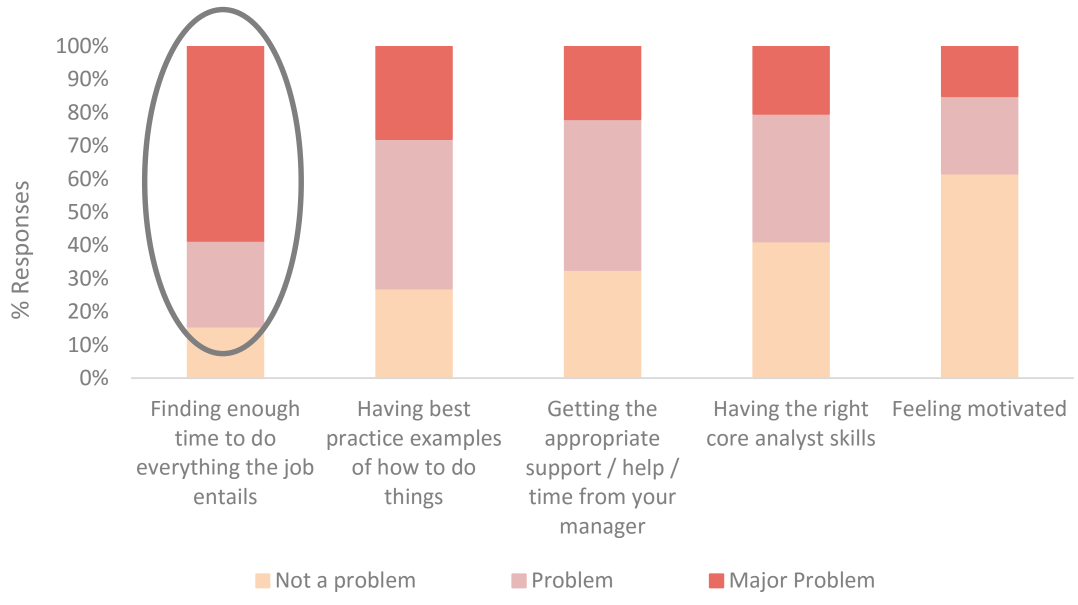
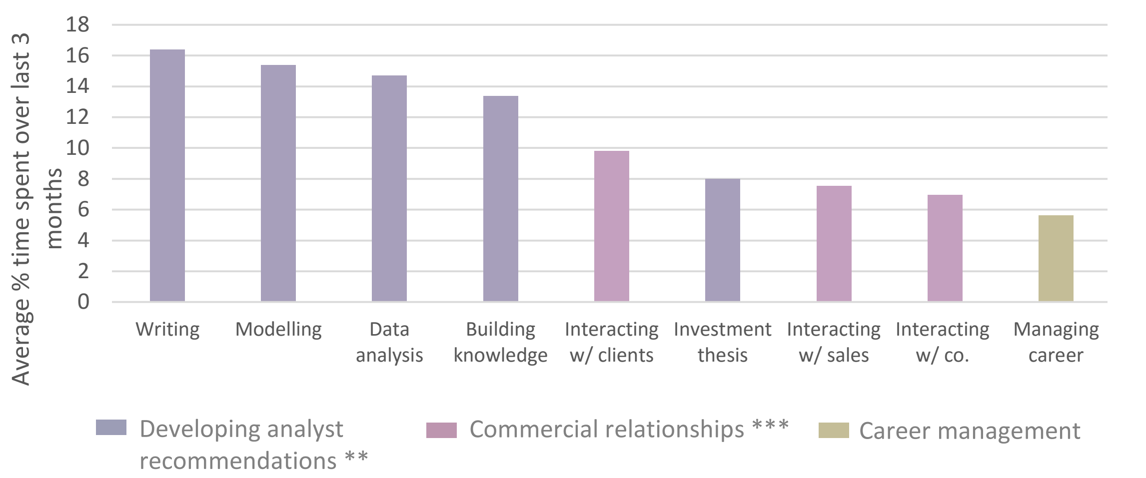


Chart 4: What percentage of your time did you allocate to each of the following activities during the last 3 months, on average?



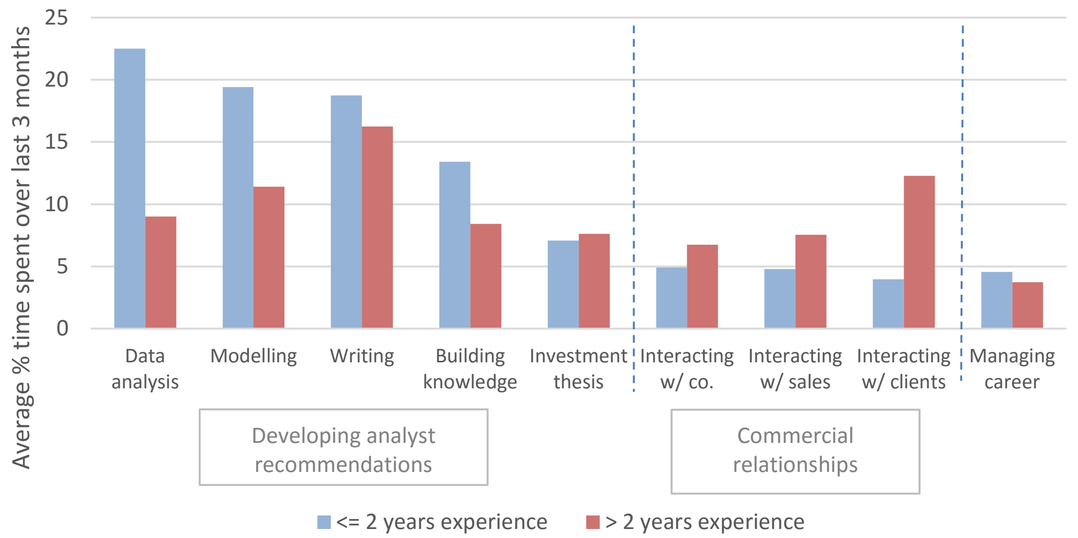
** Developing analyst recommendations includes modelling, writing, data analysis, building knowledge and shaping investment theses
*** Commercial relationships include interacting with clients, sales and companies

When asked about what they spend their time on, analysts with less than 5 years of experience responded that about 2/3rd of their time was spent on “developing analyst recommendations”. This is a set of activities that we consider to be part of the “core” tasks of an equity research analyst. It includes writing research reports, modelling, data analysis, building knowledge about companies and sectors, and creating investment theses. Within these activities, the time spent on building investment theses only accounted for 8%, whilst modelling and data analysis made up around 30%. Less than a third of analysts’ overall time was spent on commercial relationship (with clients, sales or companies).

Junior analysts only spend around 10% of their time interacting with clients. Managing their careers (including setting their own targets and priorities, and receiving feedback on their performance) only accounted for around 5% of their average time spent.

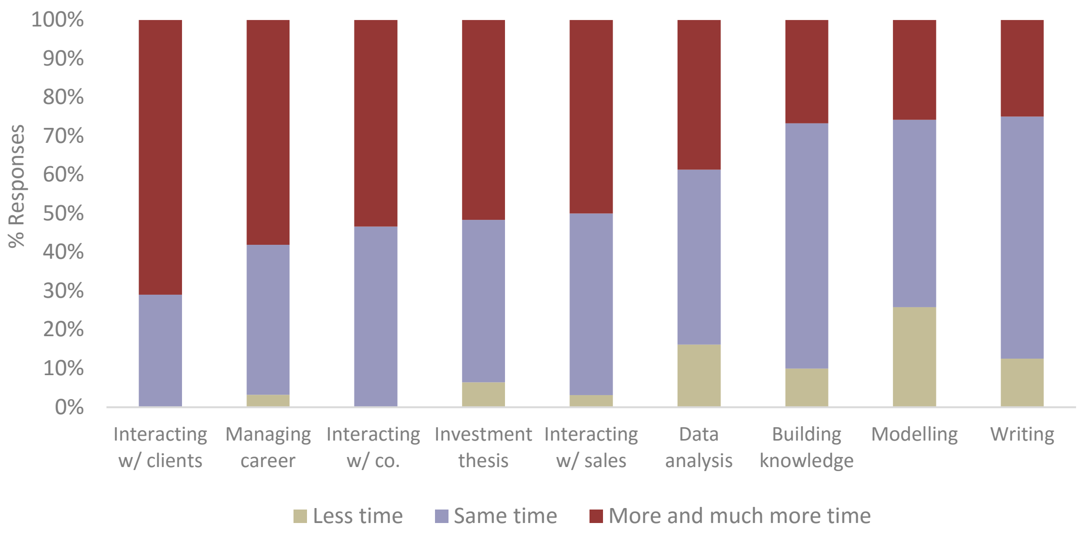
Looking at their time allocation vs. years of experience, we found that analysts with very short work histories (less than or equal to 2 years) spend materially more time on data analysis, modelling and writing than those with more than 2 years of experience. In terms of their commercial relationships, analysts with short work experience spend less than 5% of their time with clients, compared with 12% for analysts with more than 2 years of experience. This fits with the typical development of research analysts, who tend to be given more exposure to clients over time.

Chart 5: What percentage of your time did you allocate to each of the following activities during the last 3 months, on average? Breakdown by analyst experience level.



When asked about what they would prefer to spend their time on, 70% of analysts answered that they would like to interact with clients more. Having more time to manage their careers also came up strongly. Analysts also want to be more efficient when it comes to modelling and data analysis.

Chart 6: Which activities would you like to spend more or less time on?



2. Having Best Practice Examples

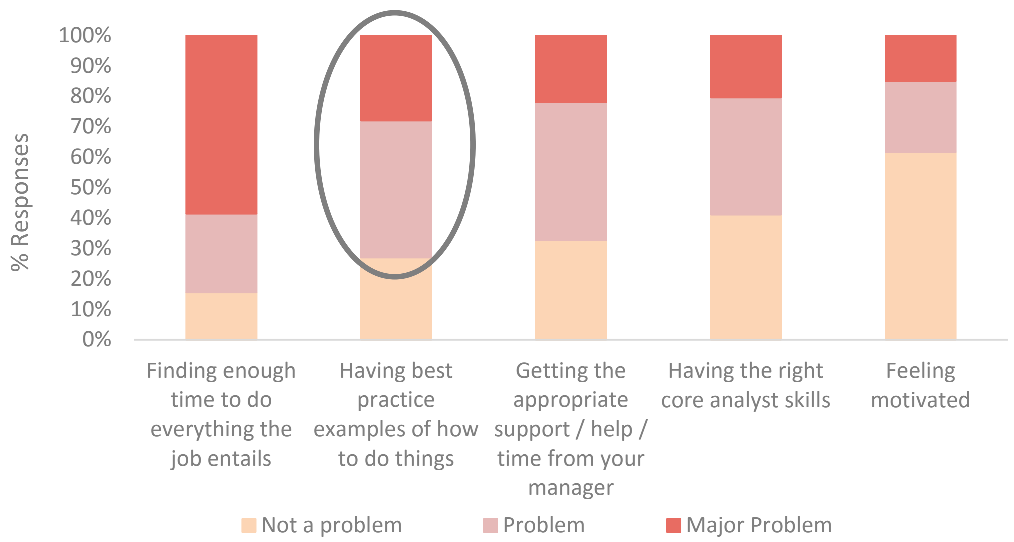
We have noticed that analysts often learn from their own team's notes, models, and ways of thinking about an investment thesis. Whilst this is understandable given sector specialisations and the differences in model structures between industries, it can limit the ability of analysts to innovate and come up with new ways of doing things. In addition, "bad habits" can sometimes be inherited from experienced analysts. For example if a senior analyst is not calling clients or going marketing enough, it can become a poor practice of the whole team. A lot of value can be extracted by looking at other teams' notes, writing styles, and ideas.

Best practice examples can help analysts to work more efficiently. By "copying" these examples, analysts can often save time and accomplish their tasks more quickly.

When turned into templates, best practice examples can offer useful frameworks and thought processes for analysts to apply and incorporate into their daily work. Best practice investment case templates, for example, can offer a valuable structure for all the steps to be followed to construct a robust investment thesis.

So how many best practice examples do analysts currently receive and how many ideas are being shared across equity research departments? On which subjects would analysts value best practice examples the most? Are there any differences between bulge brackets and boutique research firms regarding how best practices are part of the working culture?

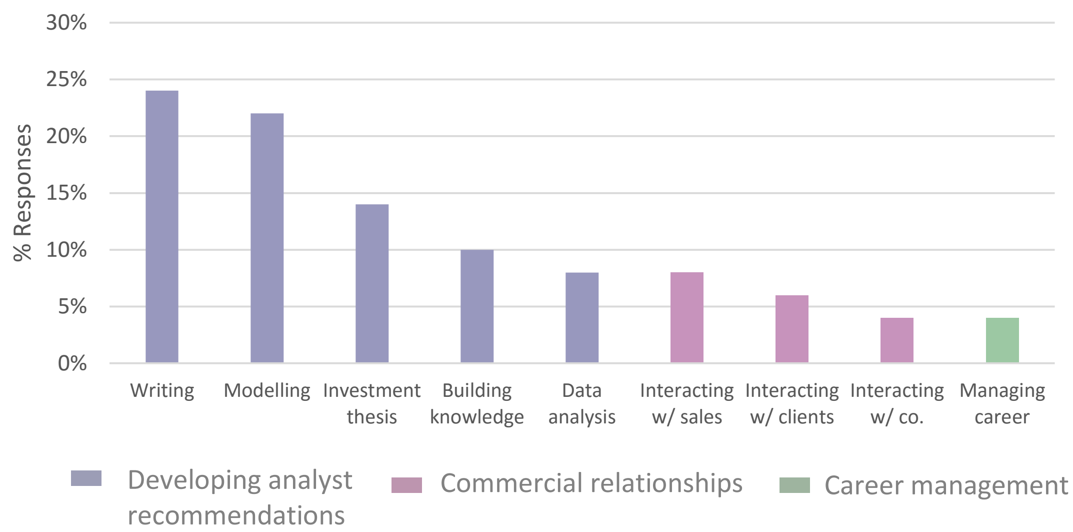
Chart 7: How much of a problem are the factors below in your job as an analyst?



As shown above, more than 70% of analysts find that they don't get enough best practice examples, and 30% think it is a major problem.

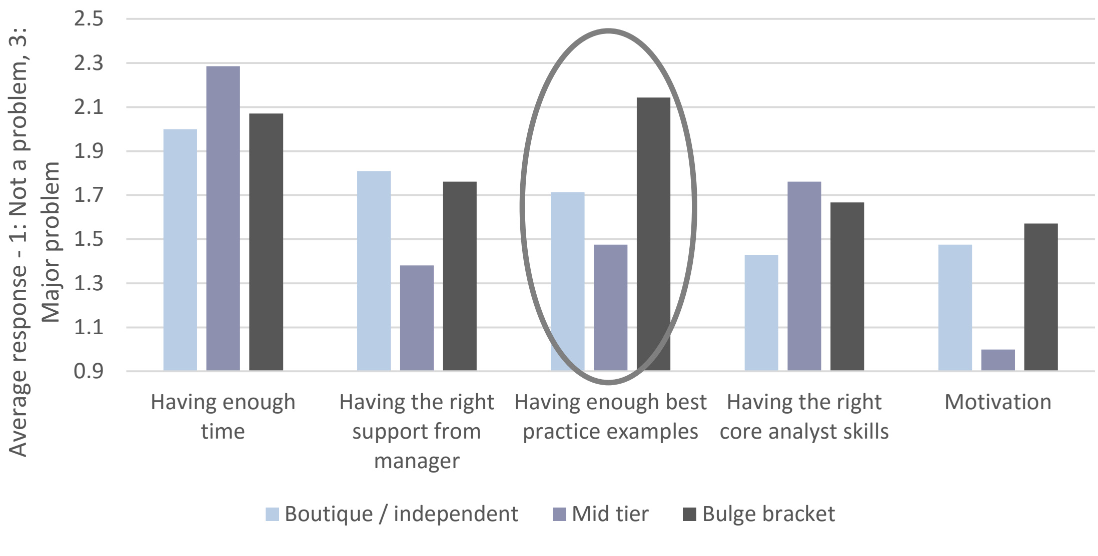
When asked in which areas best practice examples would be valued the most, analysts have shown good interest in writing research notes and modelling. Investment theses come third in the ranking. Examples on interacting with sales, clients and companies received some of the lowest interest, potentially due to the fact that they would be slightly more intangible. However, we believe that learning from a well-structured presentation script to sales, or having an example of how to best prepare for a client meeting, would likely be very useful to analysts who are early in their careers.

Chart 8: In which areas would having best practice examples be the most helpful?



Analysts in bulge bracket sell side firms seem to value best practice examples the most and feel that they are not currently receiving enough of them. This might be due to the greater awareness of the possibility of using examples from other teams that comes with working in a larger firm.

Chart 9: How much of a problem are the factors below? Breakdown by type of firm.



3. Support from Senior Analyst / Manager

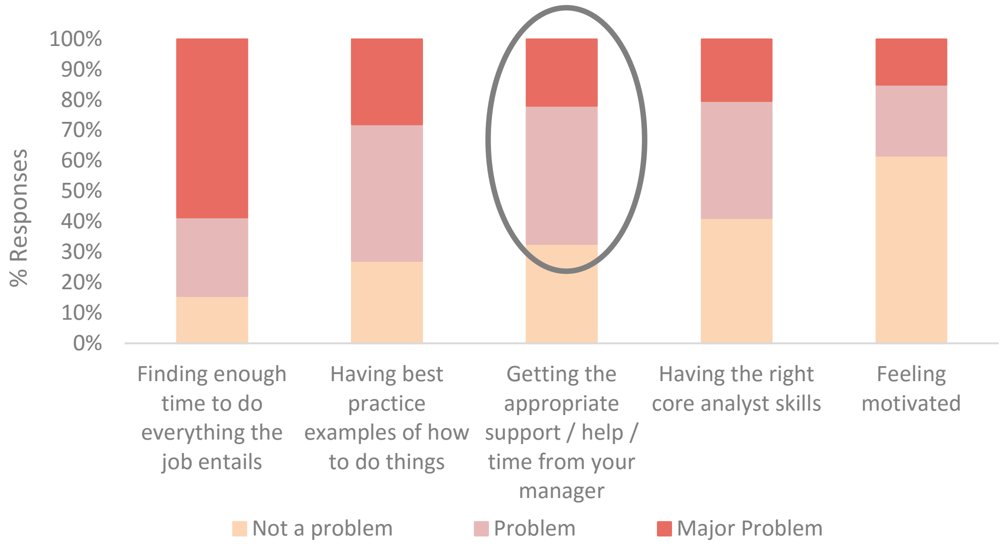
Managerial skills across research departments can vary widely. Teams are generally relatively small, ranging in size from 1 analyst to a maximum of 7 or 8.

Senior analysts often spend a lot of time on marketing trips, calling clients and speaking to the companies under their coverage. Therefore the time they have available to help and support their junior analysts, even when they have the best intentions to do so, is often somewhat limited.

Whilst early-career analysts can sometimes seek help from other team members on some of the more technical skills like modelling, data analysis or writing research, the support they receive from their senior analysts when it comes to interacting with clients, sales people and companies, is critical.

So are junior analysts receiving enough help from their managers? In which specific areas would they appreciate more help from them? Does the level of seniority of the managing analyst make any difference to the level of support he or she can provide? Finally, how can early-career analysts get the support they need from their senior analysts?

Chart 10: How much of a problem are the factors below in your job as an analyst?



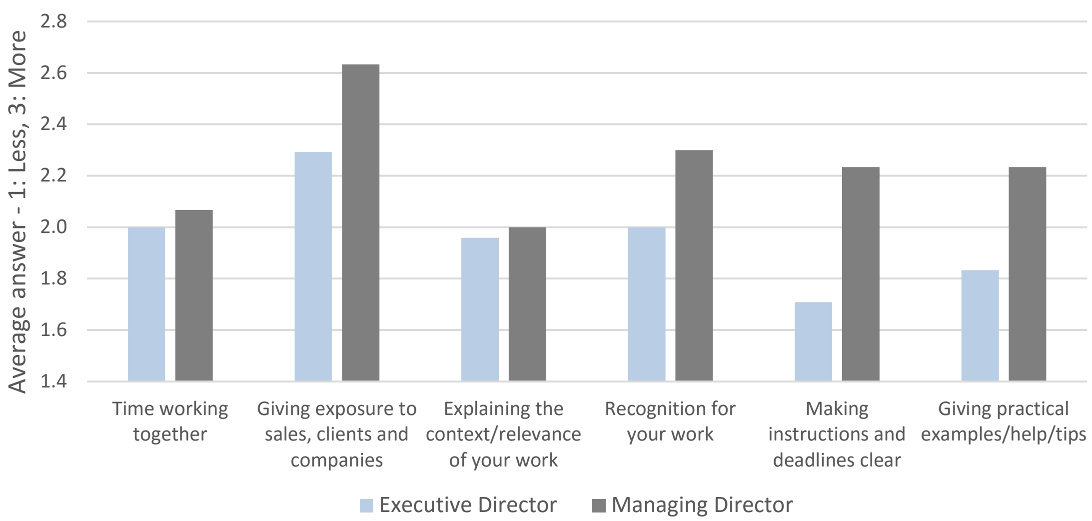
Nearly 70% of analysts find that they don't get the appropriate support from their manager, and more than 20% think it is a major problem.

When looking at what specific support analysts would like to receive, 70% of them feel that their manager could give them more exposure to sales, clients and companies, and 45% of analysts would like to have more tips and examples from their direct manager.

Chart 11: Do you feel your manager gives you enough of the following items?

As might be expected, the higher the position of the direct managers, the less time they seem to have to support and help their junior analysts. For example, in our survey, when the direct manager is a Managing Director, help on gaining exposure to sales, client and companies seems to be a bigger problem compared with when the manager is an Executive Director.

Chart 12: Would you want your manager to give you more or less of the following items? Breakdown by manager seniority.



In addition, the more senior the direct manager is, the more analysts replied they wanted more of the following: clearer instructions and deadlines, best practice examples and recognition.

We believe there are different ways junior analysts can get more help and support from their seniors. For example, analysts can ask for more feedback on specific notes or projects they have just completed. This will also increase the communication between them and their managers.

Analysts can also discuss workflow and deadlines directly with their senior analysts before starting a project. They could list all the projects they have to do, prioritise them, and allocate clear and realistic deadlines to each one.

Another way to increase interaction for early-career analysts would be by discussing their investment theses and change of recommendations with senior analysts, which would help them gain some perspective.

Finally, analysts could ask for more context: why are these data important? How will they be used in a specific research note?

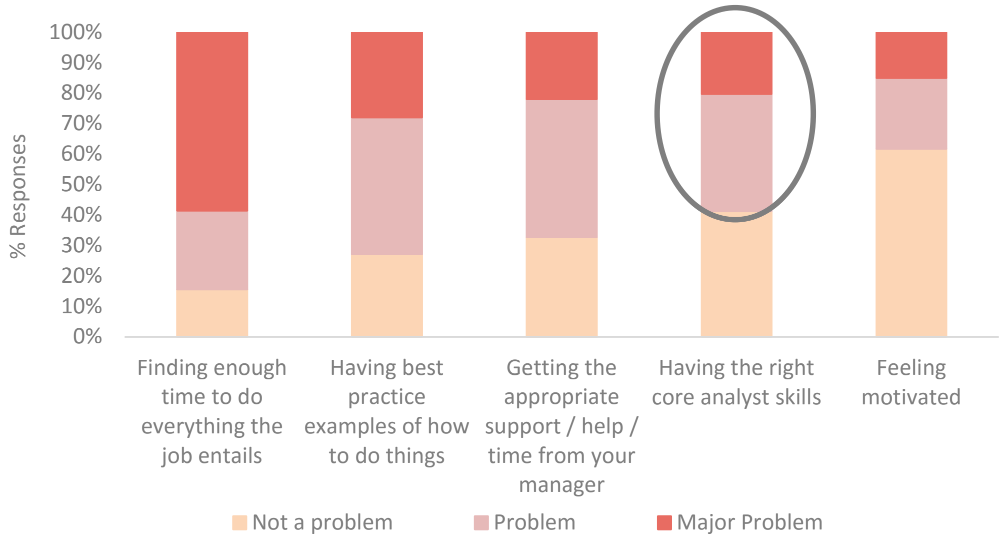
4. Having the Right Core Analyst Skills

The job of an equity research analyst requires certain specific and differentiated skills. Most analysts will join their firms with a fairly good level of analytical and technical ability, especially in financial modelling and data analysis. However, their skills might not exactly match the specific requirements of their job or the types of analysis needed for a particular sector. In addition to these more technical skills, research analysts are required to have strong writing, communication and presentation abilities.

Developing each of these separate sets of skills and, especially, improving those in which analysts are weak, is essential for them becoming fully functional, mature analysts.

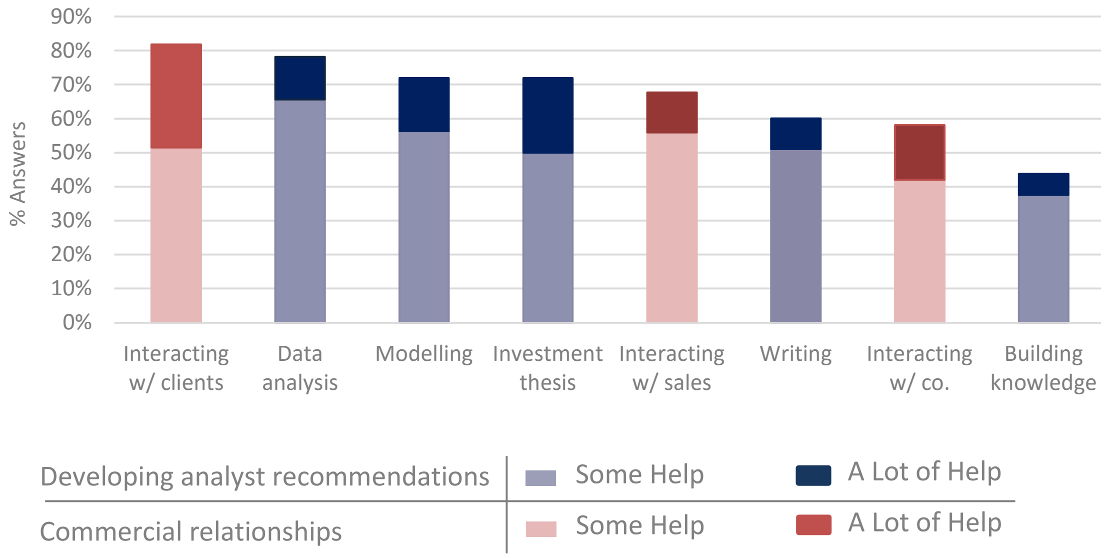
So which specific skills do analysts need the most help with? When receiving training, what topics would they prefer to have covered? Are the needs of analysts different depending on their years of experience?

Chart 13: How much of a problem are the factors below in your job as an analyst?



60% of analysts think that having the right core analyst skills is a problem for them. We believe that this is related to the other challenges outlined in this report. With better time allocation, best practice examples and support from their managers, analysts would be able to improve their analytical skills. The fact that less than 30% of analysts responded that having the right core skills is a major problem, compared to 60% saying this for having enough time, is interesting by itself. It may highlight the fact that analysts tend to underestimate the importance of seeking to continually improve their abilities.

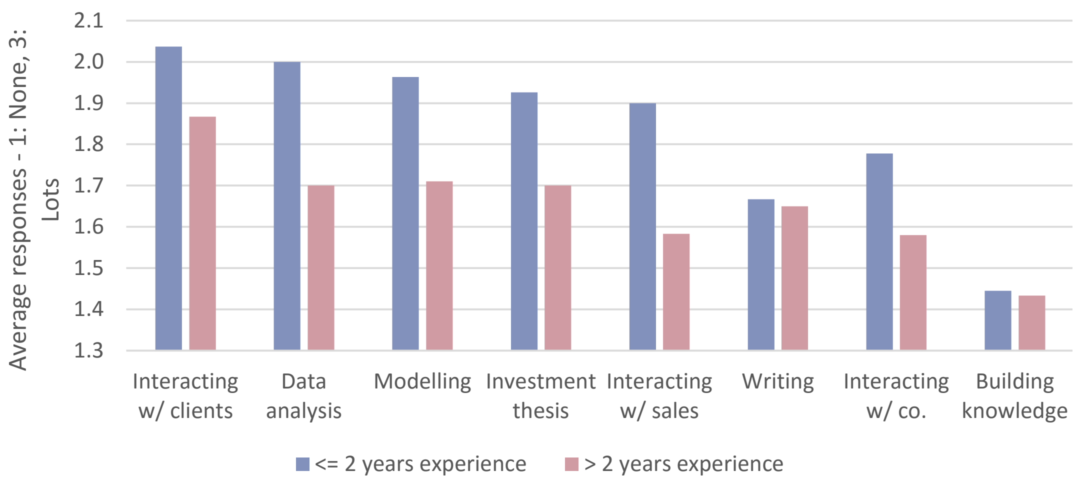
Chart 14: In which areas would you like more help or would you like to improve?



If we delve deeper into these core skills, more than 80% of analysts responded in the survey that they need help with interacting with clients. In addition, 60%-80% of analysts need help with "harder skills" like writing, data analysis, modelling, and developing an investment thesis. Interacting with sales and companies were also mentioned by >50% of the respondents.

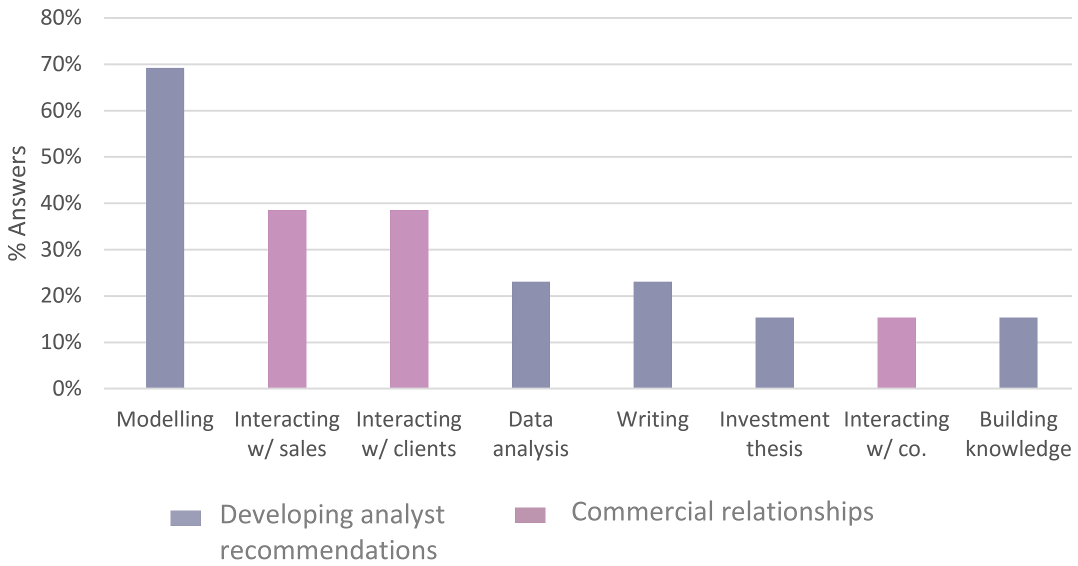
Analysts with less than 2 years of experience responded that they need more help than those with more experience, especially with interacting with clients, data analysis, modelling, developing investment theses and interacting with sales.

Chart 15: In which areas do you need most improvement? Breakdown by analyst experience level.



When asked about what they would value the most when receiving training classes, nearly 70% of analysts answered they would like help with modelling. Classes on interacting with sales and clients would also be valued by a good proportion of analysts (almost 40%).

Chart 16: In which areas would training classes be the most helpful?



We have selected some of the most interesting and useful quotes from analysts collected during our survey. They address the support they would value the most with various tasks and skills.

*“**Increased technical learning** (i.e. modelling, nuances for different sectors, dealing with particular issues for companies) - particularly useful for those at small firms with less oversight.”*

*“It is not easy to understand from the very beginning the **business model** of each company under coverage. It is also hard at the beginning to synthesize the most important information from results released for quarters, semesters and annuals that need to be mentioned in a desk note to be fully helpful to buy-side investors.”*

*“Deal with **recommendations** that have gone wrong.”*

*“It would be interesting to have more **contacts with buy-side analysts** to know what they are really looking for and what they really need.”*

*“Building the **reputation inside and outside our company** is difficult.”*

*“**Writing** new and differentiated research.”*

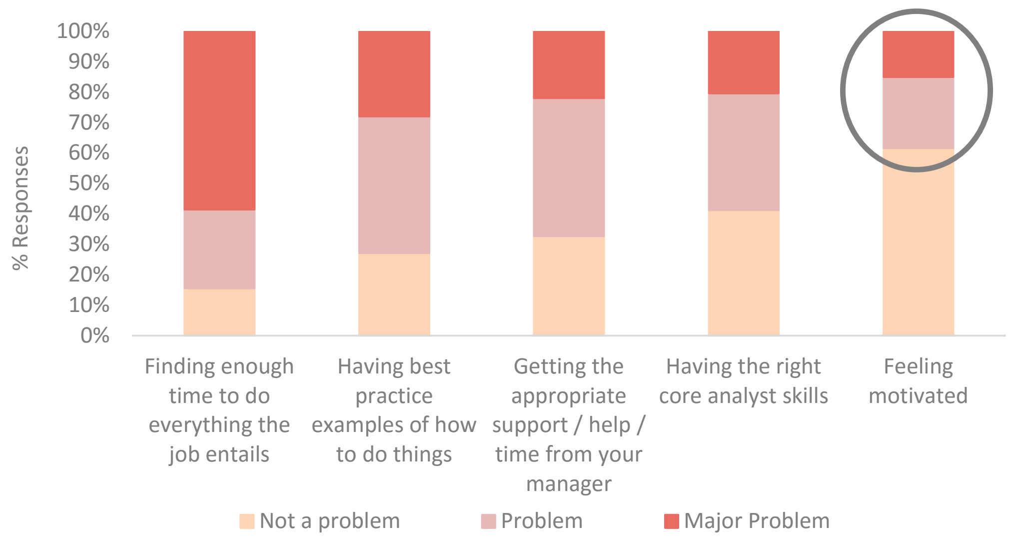
*“Help on **writing notes.**”*

5. Motivation

The level of motivation of analysts is a factor in how successful they are and how fulfilled they feel in their jobs. The more motivated analysts are, the more productive and ultimately successful they are likely to become. Research management departments often assume that a few factors, like pay and promotion, highly impact the level of motivation of analysts.

So what are the current levels of motivation of analysts who are early in their careers? Which factors really do have the most influence on this?

Chart 17: How much of a problem are the factors below in your job as an analyst?



Based on our survey, 40% of analysts see their current level of motivation as being a problem, of which 15% think it is a major problem. So while this is less of an issue than the previous topics discussed in this report, low motivation is still a problem for a reasonably significant proportion of these employees.

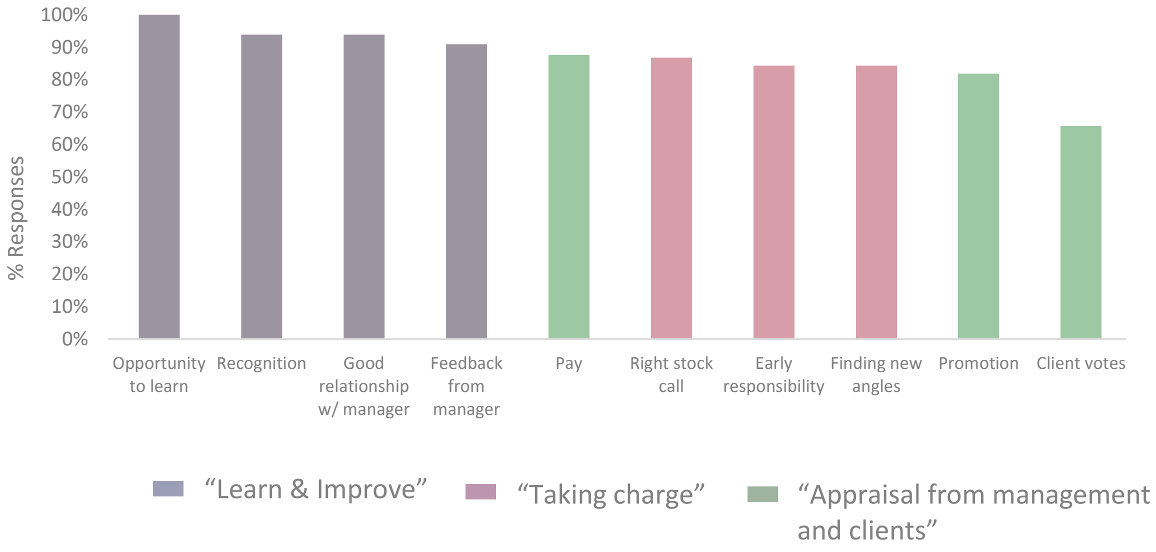
We have identified three main categories of factors that influence the level of motivation of junior analysts:

1. “Learn and improve” includes factors such as the opportunity to learn, strong recognition of their abilities, good relationships with their manager and continuous feedback from their manager.

2. “Taking charge” includes having responsibility early, making the right stock calls, and finding new angles on a stock.

3. “Appraisal from management and clients” includes pay and promotion as well as client votes.

Chart 18: How does each factor below impact your daily motivation?



Analysts responded that the factor that has the strongest influence on their level of motivation is the opportunity to learn and improve. They are looking for a high level of recognition internally and a good relationship with their manager, with lots of feedback.

Early responsibility and having the right stock calls (i.e. being able to get their own stock calls right) are also strong motivating factors for more than 80% of analysts. Interestingly, pay and promotion did not rank first, but they are still important, with a response rate above 80%. Finally, client votes accounted for 65% of responses.

D. Solutions and Assistance Analysts Value the Most

Given all the different challenges identified in our survey, we asked the analysts what support they would value most.

Analysts have shown a strong interest in one-on-one mentoring from either their direct manager or from another senior analyst, including, potentially, an external one. They seem particularly interested in sharing their specific challenges with a mentor and discussing how to best deal with them.

Having more best practice examples was also seen as being helpful. Sharing ideas and talking through challenges with their peers (either internally or externally) was viewed equally as favourably. Finally, analysts also showed a good interest in training classes.

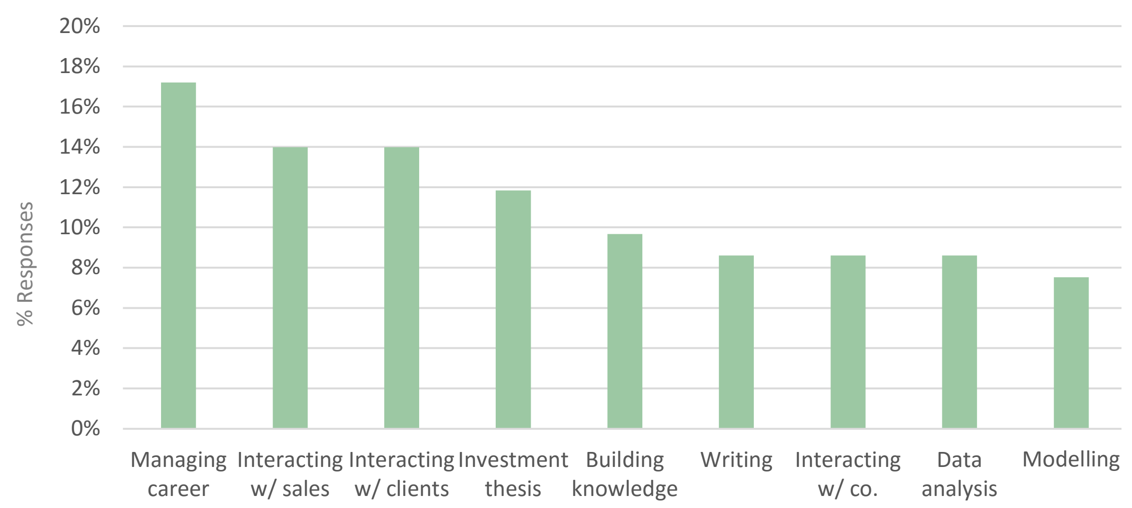
Chart 19: What would be helpful?

When looking specifically at mentoring support, analysts would most like to receive advice on how to manage their careers and how to best interact with sales and with clients.

As discussed earlier in this report, analysts thought training classes would be useful in a range of areas, from the somewhat more technical ones such as modelling, data analysis and writing research reports to interacting with sales and clients.

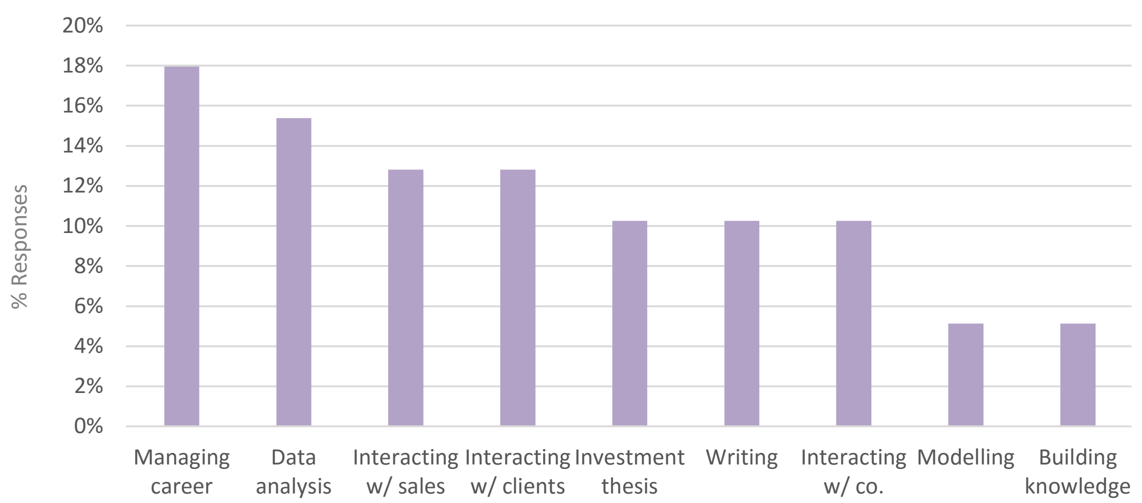
And as also mentioned previously, best practice examples were cited as being most valued on research notes and modelling, followed by investment theses.

Chart 20: In which areas would you value mentoring support the most?



When sharing ideas with peers, analysts seem to most value discussing how to manage their careers and ideas around data analysis. Interacting with sales and with clients are of the next highest interest.

Chart 21: When sharing ideas with peers, what would you like to discuss specifically?



E. Conclusion

This report, based on a proprietary survey of early-career equity research analysts (0-5 years of experience), shows that many of them struggle to reach a satisfactory level of competence in all the core skills required for the job.

When these analysts were surveyed about the reasons behind this, a large percentage of them answered that the following 5 factors have a material impact on their productivity: managing their time efficiently between different activities, receiving best practice examples and appropriate structures for how to do things, getting guidance and mentoring support, having the right base line competency in some of the core required skills, and for some of them, having the right level of motivation.

Some of the early-career analysts who took part in our survey indicated that getting best practice examples, taking training classes and receiving mentoring support would be useful for them. We believe that solutions of this nature could help to decrease the time it takes for equity research analysts to move up the learning curve and start performing well in all aspects of the job. This would allow them to deliver value faster to their employers and the wider investment community.

Information

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