



Outsource for Success

By Patricia J. Abram

Recent market volatility has led many financial advisors to yearn for more efficient and profitable businesses. Particularly as portfolios have precipitously plummeted, many advisors whose compensation is primarily tied to assets under management have taken a direct revenue hit, with an even greater proportional loss to profits (since expenses are generally fixed). Even transaction-based advisors will soon suffer, because clients who moved to cash tend to sit on the sidelines for a long time. In either case, financial advisors have little room to cut back expenses and no control over the paramount factor of how well the markets are doing.

There's a lot of room for improvement. Consider that the 2006 Moss Adams Financial Performance Study of Advisory Firms found that over a five-year period both average assets under management and revenue increased by 100 percent, while average owners' pre-tax compensation increased just 8 percent. From this we can conclude that many advisors have businesses that are not scalable, efficient or well run. It doesn't have to be this way.

Refocus Your Time

CEG Worldwide's groundbreaking Advisors 2000 study found that 9.1 percent of 463 surveyed advisors spent more than 60 percent of their time — and 28.1 percent of advisors spent less than 30 percent of their time — in client-facing activities. Stunningly, advisors who spent over 60 percent of their time this way had a net income almost six times greater than those who spent less than 30 percent of their time in client-facing activities. How, then, can you greatly increase the average amount of time you spend speaking to, meeting with, and otherwise personally interacting with clients and potential clients?

The key to addressing the tremendous operational inefficiencies found in most advisors' practices — the key that will allow advisors to right-size their practices and make them scaleable — is outsourcing. By outsourcing everything but client-facing activities and business development, you can greatly increase both income and profitability. We strongly recommend outsourcing advanced planning, back-office functions (including account opening, trading, billing, and account reconciliation), business continuity, compliance, technology, marketing (including PR, collateral materials, overall marketing plan and website), and even investment management.

Most small business founders and owners make the key mistake of not understanding the value of, and therefore not optimizing the use of, their time. By outsourcing, you let those who know the most about any given area do their best, freeing you to do your best in client-facing activities and business development. To say, "I prefer to do things myself because I can do them myself, and it's just too hard and time-consuming to bring in outsiders" is tremendous folly. Yes, correctly outsourcing vital functions will take some time and effort, but it will be well worth it. And yes, outsourcing incurs external "hard costs," but in the long run the "soft costs" of doing everything your self are far greater.

After recommending outsourcing, we often get pushback as to investment management. Many advisors have long positioned their investment skills as their unique selling point or value proposition. As a 30-year industry veteran, I have seen advisors make this mistake over and over again. When you live by performance, you die by performance, and given the general ascendancy of modern portfolio theory and asset allocation, your value to your clients better be well beyond a few basis points of alpha. And we know relative performance is only valued on the upside anyway. Not many clients were jubilant this fall when their portfolio was down 28 percent versus their neighbor who was down 32 percent. The affluent overwhelmingly state that what they are looking for in an advisor is a true wealth manager, a long-term trusted relationship with someone who looks beyond investment consulting alone to the big picture.

Take Four Steps

Planning is the first — and probably most important — step to successful outsourcing. You want to hire the right firms, agencies and independent contractors at the right price, so begin by carefully anticipating issues and defining your needs and the skills required to properly perform the desired functions. Make sure you think through the processes in question, and then blueprint them so you'll know what needs to be done when, and which of your staff members will be responsible for oversight.

The second step is the selection process. Interview potential candidates, check references, and inquire into financial stability and credit-worthiness. When you call to check references, ask if the person you're speaking to knows of anyone else using the provider, since you'll want to speak to existing customers once removed from the vendor's approved list of hand-picked referrals. Also, include your existing staff in the interviewing and final selection process to make sure you create a good fit. You won't be able to oversee all of your outsourcing personally, so your key staff members should be fully onboard with the entire process.

As you narrow your list and make final selections, keep a number two and three in mind for each outsourced function, since not every initial provider will work out. Also, as you are negotiating with potential providers, if all things are equal — if you'll be getting the same service, if they have the same track record, and you have an equally good feeling about two providers — then let price decide. But you really want to make sure that all things really are equal before you make a penny-foolish decision. Your ultimate criterion should be the

provider's ability to give you seamless support, because if there are frequent problems that demand your attention, your entire outsourcing effort may prove counter-productive.

The third step is implementation. Start your implementation slowly, ideally with a small definable project, to ensure that you've made a good selection. And make sure you negotiate a written contract that avoids "scope creep." If you haven't planned well enough, and you haven't blueprinted your processes, you may find that your outsourcing provider's contract includes possible extra charges, and that in the long run your base charge may be insignificant compared to your overages (like with cell phone bills where each extra minute is excruciatingly expensive). Carefully negotiate an agreement that clearly delineates project deliverables, deadlines and benchmarks, and that spells out the billing and payment process as well as any IP issues or non-compete provisions.

The fourth step is ongoing management and monitoring. Make sure that benchmarks and dashboards are clear and understandable, that they are delivered on a regular basis, and that it doesn't take an extraordinary effort to dig out the information you need to efficiently monitor progress. And, of course, you want to pay your provider promptly. Once you've found a good provider, you don't want to harm the relationship by not living up to your side of the bargain.

Is Time on Your Side?

In order for a business to be scaleable, your costs can't go up in proportion to your revenue. Unfortunately, that's just the kind of business that most advisors build and run, because they and their team have taken on outsourceable functions that don't provide clients with the kind of unique, personal, client-facing presence that generates loyalty, additional assets and great referrals. Outsourcing, then, is a hallmark of creating equity in a scaleable business, because outsourcing costs can be contained, thereby allowing you and your staff members to function as true value generators and rainmakers instead of as support staff.

As a financial advisor, indeed, as a businessperson of any kind, the only thing that is not fungible is your time. There are only 24 hours in your day, no matter who you are or what you do. Over the years, many advisors have told me that while they were making good money, they were working too hard and didn't have enough time to spend with their families and otherwise do what they loved. Isn't it time, then, to gain back control over your time by implementing outsourcing as the preferred route to building and running an efficient and profitable business?