



Wealth Management Services White Paper

Practice Management – Vendor Outsourcing

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How much time do you spend with clients? The answer is likely “not enough.” By outsourcing components of your advisory practice, you can substantially increase time with clients and maximize the value of your practice.

In this article, we first explore which elements of your practice might be outsourced to service and technology vendors. Next, we examine the challenges of integrating outsourced systems and services with your existing practice. In the final sections, we evaluate outsourcing solutions based on various types of practices and offer suggestions for outsourcing success.

Elements to Outsource

The primary objective of client meetings is to collect as much relevant data as possible and then translate that back to the client in the form of solutions (e.g. planning and investment advice). Ideally, vendors should support and simplify this process. For example, an advisor inputs new client data once into a system which generates a client-specific:

- Financial Plan
- Investment Proposal
- Investment Policy Statement
- Investment Recommendations
- Completed package of account opening documents

Ongoing, the advisor’s outsource partner(s) facilitate:

- Researching asset managers and making their products accessible.
- Updating the financial plan as a result of contributions/distributions changes in asset values and capital market assumptions.
- Promoting the output of the Investment Policy Statement directly to a Trade Decision and Rebalancing System and then out to a Trade Order Management System.
- Settling trades.
- Reflecting new positions in Statements, Performance Reports and Advisor Desktop
- Identifying opportunities for interfacing with clients.
- Notifying when rebalancing or product replacements are needed to adhere to changes in the policy and the plan.
- Automating the aggregation of all relevant client information.

Integration Challenges

In a perfect world, the aforementioned outsourced elements would seamlessly integrate into every advisor’s practice. Unfortunately, the following constraints often prevent this from happening.

- The required elements of a Financial Plan, Investment Proposal, Investment Policy, Rebalancing Tool, Trade Order Management System and Reporting are in the eyes of the beholder.
- The difficulty of linking these systems breaks down when the intended functionality of each part varies from the intended use of the advisor.

- Core Accounting, and Custodial and Trading limitations and requirements, all put a further damper on maximizing the utility of the separate functional elements.

The Complexities of Integration – An Example

An advisor selects separate vendors for financial planning software, client proposal/IPS generation, and trading and custody services. Each vendor service and technology provides unique outputs that are useful to an advisor on a stand-alone basis, but pulling the systems and services together proves more challenging. For instance, the financial planning tool may generate simple savings and spending rates or may provide specific asset allocations and asset location strategies. The advisor then enters the output from the financial planning tool into a separate client proposal and IPS generation system, but the asset classes are represented differently and the asset location logic proposes a different solution. Finally, the advisor uses the trading and custody services of another vendor to implement the client proposal. Unfortunately, the available packaged product choices do not exactly match the asset allocation proposed to the client. Furthermore, the reporting tied to the custody system uses asset benchmarks that are different than those generated by the financial planning software and the client proposal/IPS generation system. As evidenced by this example, selecting multiple, disconnected vendor technologies and services may result in operating inefficiencies and problems associated with disjointed client messaging and reporting.

Selecting a vendor based on a stronger integration story also presents some challenges. For example, not many vendors offer integration beyond a few elements that support advisory practices. Furthermore, vendors that offer a more comprehensive suite of integrated services are likely not to have the depth of functionality that advisors may desire.

Outsourcing Based on Practice Type

Is your practice like a Bentley, a Mercedes or a Camry? Bentley practices can earn \$100,000 or more in fees from a single client. Ten or fewer clients may consume 200 hours of work each, while generating the million dollars a year for this high-end practice. Clients of Bentley practices are looking for performance and style. Advisors in this type of practice should partner with vendors that enable them to produce the finest plans and services in the world.

Mercedes practices primarily serve clients with 5-25 million in assets. These clients can pay \$25,000 a year in fees and expect world class performance even though they know they are not getting the cache' of the client group above them. Clients of a Mercedes practice will not be served well by off-the-shelf vendor products and services that are geared toward advisors servicing the mass affluent market. Advisors serving the 5-25 million dollar client require vendor tools and services that provide customization and in-depth functionality, yet can be integrated to produce efficiencies necessary for servicing a moderate size client base. Best of breed applications and services are still an option for this type of advisory practice, but only if they can be fit together in a cohesive whole.

Now to reality. Camry practices represent the remaining 99% of the advisor universe. Clients served by these advisory practices generally have less than 5 million in assets and usually pay no more than \$5,000 in fees. In order to service a large client base of several hundred relationships, an advisor generally can commit only 10 hours per year per client. Ten hours is only enough time to listen to a client and to provide and explain reports created by an integrated, automated solution.

Advisors serving this segment of the market should relax their idiosyncratic notions of perfection and find vendors that link the entire advisory process together. By taking this approach to outsourcing, Camry advisors are able to maximize their time meeting with clients and minimize their time behind a desk.

Outsourcing Success

A successful journey begins by knowing the right road and the car traveling on it. Vendor selection for your practice is easier and produces better results when you know the scope of what you are looking for. If you are servicing a large number of clients, you should not be evaluating vendors with the most complex and robust planning and proposal systems on the market. By first defining your scope, you will recognize the need to find an outsourcing partner that can deliver an integrated and efficient solution that complements your practice.

When selecting vendors, compare three firms with solid integration capabilities instead of focusing on one vendor that has every bell and whistle imaginable within a certain functional area. Vendors that have successfully linked multiple systems and services understand the tradeoffs between creating a unified whole and delivering functionality with complete flexibility. No vendor will be able to give you exactly what you want. Ask where the technology and services are flexible and where they are not. Walk away if the answer to every question is yes. Where limitations exist, ask the vendor why they have not addressed these areas. Their explanation often will reveal more about the firm and their strategy than their affirmative responses regarding existing functionality and services.

At the end of the day, you should partner with a vendor whose philosophy most closely matches yours and produces output and solutions that you can support. By taking this approach to vendor outsourcing, you will have more time to spend with clients, and will position your practice on the road to success.

For additional information on FDx Services, please call (212) 799-5890