

Focus

Taking the Plunge into Outsourcing Through Technology

by Andrew Kantor

Think of it as giving your business away...in a good sense. It's outsourcing, and thanks to the high bandwidth and low cost of the Internet, it's becoming a way for financial planners to concentrate on doing the things *they* do best and let go of the things *other people* do best—things like managing computers, handling mailing lists, and doing the grunt work.

Outsourcing, put simply, means hiring a company or person to do some of your work for you. In the financial planning universe, that work might be as simple as maintaining your Web site, or as complex as administering your clients' pension plans.

The planners we spoke with all had the same basic rules: "Give away what you don't want to do and what others can."

Obviously this will be different from firm to firm, person to person. Some planners, we found, are comfortable outsourcing large parts of their business: portfolio balancing, securities purchases, and even some client contact. Others we spoke with prefer to keep all but the gruntest of the grunt work in-house, only giving away chores like Web site updates and computer maintenance.

Regardless of the scope, more and more financial services firms are signing up what many refer to as "outsourcing partners" to take some of the workload off staff without adding another body to the office—or payroll.

The concept of outsourcing is nothing new, although the term might be. You don't run your own phone system; Verizon or Sprint or someone else does. You probably don't vacuum the carpets in your office, clean the windows, or fix the plumbing. All those things are done by others because you're a financial planner, not a phone company, cleaning company, or plumber. But few people think of that as outsourcing. It's "contract labor" or simply "a service."

It's always been easy to outsource those things, simply because they weren't specialized. Anyone who understood wires or pipes or a vacuum could handle the job. On the other hand, working with your data required a specialist, and depending on where you were, one might not be so easy to find. Besides, crunching numbers was *your* job.

The Internet changed all that. Suddenly, location doesn't mean as much. If you want someone to crunch some of your data or manage your computers, you're no longer forced to look within a few miles of your office. A high-speed connection means Bombay is as close as Boston or Burbank. A world of experts, literally, is open to you.

As Dan Goldie, CFA, CFP®, based in Menlo Park, California, puts it, "The Internet has enabled me to work with a firm in Santa Barbara, which is a long way from me—it's 300, 400 miles away."

Goldie is on one end of the bell curve of outsourcing; his partner handles a majority of his day-to-day work including trading, reporting, compliance, client communication, Web site maintenance, and even speaking to his clients for "paperwork-type issues."

While the Internet eliminates the distance factor, data standards—HTML for Web sites, Microsoft Word's .doc for documents, or XML for data—let everyone speak the same language and work with the same information. Your Excel spreadsheet, for example, can be read by one company, put on a Web site by another, and integrated into a mail message by a third.

And that's something you might need to do.

The Internet, and the Information Age it brought, have changed people's expectations. As they've gotten used to having a ton of data at their fingertips, chances are your clients have wanted more, and faster. Monthly or quarterly reports by snail-mail have been replaced (or at least supplemented) by e-mail updates

and client-service Web sites. That means more work for you, and less time doing the kind of stuff you got into this business for.

And this is why more and more companies—including financial planners—are turning to outsourcing for more and more of their business functions. You'll hear them talking about "core competencies," "primary functions," and "customer focus."

Of course, it's easy to talk about having someone else fix your plumbing; if they don't do a good job, maybe you don't have hot water for a day. But if you outsource more vital tasks—your routine business correspondence, or your clients' portfolio tracking—a mistake could be costly. Very costly.

It's not surprising some companies and individuals hesitate to outsource. But more and more are taking the plunge. They've seen the benefits, dealt with the pitfalls, and learned from mistakes.

"I'm a doctor, not a bricklayer," quipped Dr. McCoy to Captain Kirk in an episode of *Star Trek*. The same is probably true for you: You're a financial planner, not a plumber, or a mail service, or a Web site designer. Outsourcing is a way to concentrate on what you do well, and let someone else handle the rest.

What's the Point?

Talk to people who outsource some of their financial planning business and you're likely to hear several reasons they made the choice. Some may have found they had less and less time to be involved with their clients, as their business management overshadowed their business. Others turned to outsourcing to keep up with an expanding client base. And others found that the technology was getting ahead of them, and that clients were demanding things they didn't know how to provide.

David J. Drucker, CFP®, a financial advisor since 1981 and author of [Tools & Techniques of Practice Management](#), agrees that the benefits of outsourcing are many. Expertise is one. "An outsource partner is a specialist and so is generally more expert at his or her tasks than a newly hired employee who must be trained," Drucker explains.

Money is another benefit. Says Drucker: "The economics of outsourcing are often superior to employment because there is no 40-hour-a-week commitment to an employee's salary and benefits." And, of course, there's nothing wrong with looking out for yourself. Someone who outsources the things he would normally hire someone to do "can create much more generous benefit plans for himself and his family," Drucker says. He should know; he's done it himself.

Jason Abosch, CPA/PFS, CFP®, manager of business operations for FranklinMorris in Baltimore, Maryland, says his company turned to outsourcing not to save money, "but for the ability to practice financial planning. Running around fixing computers and fixing servers is not how our business makes money."

That's why FranklinMorris lets someone else handle much of its computer service needs. They manage the company's servers, maintain the PCs, and act as a help desk.

FranklinMorris isn't unusual; handing off IT tasks is popular among companies that outsource. Maintaining an in-house staff is expensive and, because IT needs are often not industry specific—a printer is a printer, after all—there are plenty of firms available to do the job.

Bob Foland, CFP®, with the IRA Specialists in Englewood, Colorado, says his company has been outsourcing only a short time—since early 2004—but he's glad they are. "Before bringing this company in, I might spend half or even full days getting some computer bug worked out. Whenever I was doing something like that, I was nagged by the feeling that I was not spending my time doing what I do best—the things that serve my clients and for which I am paid."

Now Foland pays someone else to worry about those things. Like FranklinMorris, his company focused on outsourcing its IT functions, with an emphasis on security. "We were a digital sieve with a wide open peer-to-peer network," Foland says, and his partner helped him close the gaps.

Of course, that wasn't the only selling point. "I know that I have saved enormous amounts of time," he says. "Whether or not I'm saving money ultimately depends on what I do with the time I save. I'm convinced the former translates into the latter, although I would confess that I can't prove that."

Goldie is the founder, owner, and only employee of Dan Goldie Financial Services. As a sole proprietor, Goldie outsources everything, and he likes it. "I'm able to spend 100 percent of my time focused on my clients," he says. "I don't have to manage employees, I don't have to hire, fire, or train. I don't have to deal with a lot of the business operational issues that a lot of other advisors have to deal with."

Goldie echoes an idea that many satisfied outsourcers tout: Focusing on what you do best. "My core value-added is in managing portfolios, providing financial planning services and interacting with my clients—helping them make smart decisions," he says. "My value-added is not managing employees. I'm not adding value when I'm sitting in front of a computer placing trades or dealing with compliance issues. I see them really as distractions. I want to *not* do anything that is not directly related to helping my clients."

Goldie sees another advantage: autonomy. "My goal is to structure my business in such a way that I can always maintain my independence and 'no-employee' status. For me it's the most efficient business model."

Abosch, too, sees another advantage: Cliché but true, the whole can be greater than the sum of its parts. He and his company have a strong relationship with their outsourcing partner. "We have been able to do more collectively," he says. "We've bounced ideas off of each other—there's sort of a collaborative working process that way."

Drucker doesn't think that's unusual. "One of the serendipitous advantages I've found in working with outsource partners is that they all function, to some extent, as business consultants," he explains. "Because they work with lots of small businesses, these folks have seen what others are doing, what they've tried and failed or succeeded at, and can offer many helpful ideas that lead to augmented services or just better ways of doing things. That's one of the greatest payoffs."

Pick Your Partner

Listing the advantages of outsourcing is one thing; on paper it can sound terrific. But finding a company you trust to handle some of the critical aspects of your business can be an exercise in stress. There are issues of accuracy, reliability, timeliness, and trust to juggle, as well as logistics—systems need to be connected and tested, all without any interruptions to your client services.

Of course, some of these issues are the same *your* clients faced when choosing you as their planner. They were, after all, putting their financial future in your hands.

"The greatest issue in finding a qualified technology outsourcing company," says Jason Abosch, "is the same issue clients have in finding a qualified planner to whom they wish to outsource their financial planning: A technology company and a financial planner must both take the time to listen and react to their clients' goals." Shy away, he says, from companies that simply want to implement stock solutions. "We've worked with organizations that want to implement standard IT packages that aren't consistent with our goals." Note the past tense: *worked*.

Abosch says that one tool for finding the right outsourcing partner is a common one: the referral. "We didn't want to open up the phone book and pick someone, so getting a referral makes a heck of a lot of sense." Obviously you don't want to entrust your business to a company just on someone's say-so, no matter how much you trust them. Abosch's company asked a lot of questions to get "a sense of a tech firm's areas of expertise and seeing if they're congruent with yours."

And don't ignore the basics. "Ask how long have they been in business," he suggests. "Ask if they do background checks on their employees."

Ron Rawlings of Dallas Financial Wholesalers in Dallas, Texas, offers another caution: Don't limit yourself to interviewing companies that are experts in financial services. His company outsources a lot of its Web-based services. "After interviewing several vendors, we found the perfect firm," he says. "They had no experience servicing financial service firms, but quickly learned how to meet our needs. They have

become a critical part of my practice."

Rawlings doesn't tap his outsourcing partner for as much as some others do; his is limited to handling things like development and maintenance of the company's Web site. Still, that's at least one person (and one person's benefits) Rawlings doesn't have to pay for.

Part of the reason Rawlings and others were able to ensure their satisfaction was the simple act of communication, which most people agree is a key, if not *the* key. "It is very important to have a clear understanding as to what each party is going to do," says David Drucker. "This may seem like common sense, but it is the downfall of many outsource relationships."

Bob Foland agrees: "Two words of advice: Clarify expectations." He admits to being "too handshake oriented." Foland says, "I have to make myself get agreements in writing. While I haven't had a problem with either my technology firm or with my CPA, we have put in writing who will do what for whom, and by when."

It's not just a matter of putting yourself on sound legal footing if something goes awry. It's a matter of not making assumptions. Foland gives an example: "Advisors may think everyone does portfolio reporting the same way, and therefore assume the portfolio-reporting company to which they've outsourced will just know what they want." That, Foland says, is never the case. "Each engagement must be discussed thoroughly for the relationship to be successful."

Abosch concurs. "I think communication is particularly important," he says. In his company's outsourcing relationship, "I think it's been one of the most important things."

Dan Goldie recently switched outsourcing partners to one called PartnerVest. His old partner wasn't meeting his needs and he knew it was time for a change. "The services I was getting from the other group had deteriorated to the point where I felt that I needed to make a change to improve the level of service for my clients," he explains.

He brought that experience to his talks with potential new partners. "I wrote down all the activities I needed to have done," he says. "I met with a bunch of folks and tried to find a firm that was able to do everything I wanted—where I felt there was a good fit, personality wise, and in terms of their capabilities." He's glad he did. "It's worked out very, very well for me. I've been extremely pleased."

Goldie switched firms in part because he thought the company he had been with was trying to grow too fast, and was putting its clients—him included—second. His outsourcing partner was small—just like his firm. "I liked the people and everything. I was a lot younger, and just starting." But then it started to grow. Too fast. "I felt that the process of growing very fast was a disadvantage to those of us who were working with them," he says. "They were more interested in growing and bringing on new people—new advisors—as opposed to servicing the existing ones well."

Goldie's advice: Don't just look at the size of a potential partner now. Think about its plans for the future; they may or may not jibe with your needs. "If a company is attempting to focus on its profitability more than the level of service it's providing to its customers, that's a red flag," he says.

Drucker also cautions against choosing an outsourcing partner that is looking for fast growth. "An undesirable situation is one in which the outsource partner can't manage its own growth," he says. "The quality of service slides."

"One of the lessons that I learned," says Goldie, "is to look for an outsourcing partner that is looking to grow its business steadily, and is not looking to take it public or to sell it."

Abosch says he's found some advantages to working with a larger company. What's important, he says, is "finding an organization that listens, and finding an organization where you're not the smallest fish in the pond. You want to make sure you get the attention you need."

Give It Over

Once you've made the decision to outsource, the obvious question is "Outsource what?" David Drucker points out that you probably give away a lot already. "Those tasks that are amenable to outsourcing have

long been outsourced," he says, "although financial planners don't always recognize it. For example, most planners outsource legal work, accounting, tax preparation, pension plan administration, and so forth. All they need to do is apply the same thinking to other tasks."

Those other tasks could be a smattering—data backup, your Web site—or, like Dan Goldie, the whole enchilada.

"I've outsourced all of my back-office functions," he says. "Basically everything that is not directly related to meeting with a client, planning their portfolios, and the direct interaction with a client." And that's the way he planned it. "When I hired them," Goldie says, "I had three pages of stuff that I wanted them to do. They do my trading, all my reporting, all the performance reporting, and they send out all my communication to clients. They keep my Web site up to date, they handle the online reporting functions so my clients can go online and see their portfolio values and returns, and so forth."

Goldie's outsourcing partner also handles all his compliance issues. "They're in charge of doing my audits and everything," he says. "All the trading records and the various things that an investment advisor has to keep for compliance reasons."

But wait, there's more. "They also interact with my clients when I want them to, for paperwork-type issues and smaller issues. It frees me up to focus on the most important things." That includes meeting with clients, educating them, developing portfolios, and doing the actual financial planning.

But once he's met with, educated, and planned for his clients, "The implementation of the planning is done by this other firm with my oversight," Goldie says. He developed a portfolio-balancing algorithm, but PartnerVest makes sure his clients' investments stay on the track he's laid out.

Bob Foland hasn't outsourced as extensively as Goldie has—although he is using outside firms to handle many office functions. For example, an employee had been handling his office's bookkeeping and bill paying, but Foland decided to turn that over to an external CPA. "My goal is to have his office function as my office manager for financial matters," he explains. "When this transition to my CPA is complete, his firm will also handle payroll."

For Foland, the motivation was both money and convenience. "I'll pay less than my estimated cost per hour for the former staff person, without the taxes," he says. "My financial records will be in one place from which I will get regular cash-flow and balance-sheet reports. Maybe the greatest benefit from my perspective is that I don't have to dig up stuff at tax time—a job I particularly loathe."

Another problem some firms choose to outsource is security. It's a specialty, and not one the average financial planner is going to be well versed in. With high-tech hackers as common as, well, thieves, it may make sense to let someone else do the data lockdown. It may also be part of your marketing strategy.

"The particular company I chose to work with places a great deal of emphasis on security of information," Foland says. "We are making our security policy a selling point for my practice. Not so long ago, I didn't have a security policy. Now it's in writing and I can, and do, tell current and prospective clients about it. This project has been work and has cost money, but I believe it's in the best interest of my clients. If it's good for them, it's good for me."

For Abosch, it didn't make sense to outsource as much as Goldie has, either. Computer maintenance, sure—"SGdata takes care of our routine PC maintenance," he says. "They act as our help desk and PC troubleshooter." But his firm decided to retain control of their data rather than let an outsider handle it. "We said, 'Let's manage the data we manage best.'"

But the logic behind that decision is the same as for outsourcing in general—deciding what your core competencies are. For his firm, FranklinMorris, data management was one. "We view that as a primary function," Abosch says, "as opposed to technology, which is a secondary function of our business." What's important, he says, is the ability to serve the clients, and "we thought if we managed our database in-house it would be more efficient."

Why Not?

The arguments for outsourcing are strong: saving money, saving time, focusing on what you do best, adding flexibility. Yet not everyone does it. In fact, not many do it at all.

"Many planners are cautious and conservative, in my opinion," says David Drucker. "There are those who believe they must hire all of their talent to 'institutionalize' their firm, and that's a valid objective." But institutionalizing—keeping everything in-house—limits you to the knowledge and experience of the people you hire. There's no external expertise and few new ideas.

One of the nice things Jason Abosch found about working with SGdata is the experience a company like that can bring to the table. "Not only is there a cost saving, but outsourcing gives us access to a broader range of skills."

Another argument against outsourcing comes out of confusion. Some undoubtedly equate outsourcing with what is becoming known as "offshoring"—sending work to low-wage countries such as India. Say "outsourcing" and they have visions of a PR nightmare.

Domestic companies might have themselves to blame for that. As Dan Goldie says, there simply may not be that many U.S.-based partners to choose from. "I don't think there are a lot of firms out there offering these services," he says.

Abosch agrees. "Perhaps it's not knowing the service is available," he suggests. Or worse, "thinking that it's possibly more expensive than having someone in-house." The latter reason, "a perceived increase in cost," was something that upper management at his firm had to be convinced wasn't the case. Abosch tied it into the value of external expertise: "If we're paying someone X dollars and we're paying SGdata Y dollars," it's worth it. "SGdata has people with skills in many different areas compared with an employee."

But the biggest roadblock to outsourcing might be the perceived loss of control. If your data aren't in your building, they aren't your data. Says Goldie, "A lot of advisors feel more comfortable when they have people physically doing their work in their office—people who are employees and over whom they can have the perception of more control."

Says Abosch: "A loss of control over one's technology—I think that's a viable concern." But for him, he says, it's a concern that proved unwarranted. Franklin Morris hasn't had a problem, he says, "and that goes back to the interviewing portion." In other words, by asking the right questions and laying out the responsibilities ahead of time, the company was able to feel comfortable with what it gave away.

Goldie, at least, recommends that planners and advisors get used to the idea of having someone else handle some of their workload. "There are advisors who feel uncomfortable letting go of the control," he says. "To be competitive in the financial-planning arena, I think you've got to delegate and you have to trust others to get the job done."

Like the family doctor, the jack-of-all-trades business is all but gone in favor of experts in a growing number of specialty fields. Businesses will increasingly turn over some of their workload to people and companies that can do it better. Those that don't might find themselves playing catch-up.

You need to outsource, plain and simple, says Dan Goldie. "Otherwise I really believe you're limiting your growth opportunities and limiting the real added value you can bring to the client."

Bob Foland understands the reluctance, but also understood the need to let go. "I enjoy puzzles," he says. "I enjoy figuring out problems. I just decided to let go of that stuff because my reason for being in the office is to be productive for my clients and myself."

Value to clients. That's the bottom line. Because chances are they don't care whether their portfolio's spreadsheet is being managed down the hall or across town. "As long as their planning is getting done," says Abosch, "they don't care if it's done in-house, out-of-house, or something in between—as long as they believe their information is secure and is protected."

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