7 TIPS FOR EFFECTIVE OUTSOURCING

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SUCCESSFUL ADVISORS instill trust by creating deep rooted relationships with their clients. When an advisor takes the time to show a genuine interest in a client's personal and professional life, the advisor/client relationship is strengthened. An advisor's time is eaten away by a variety of tasks unrelated to building and maintaining client relationships. Fortunately, outsourcing allows advisors to re-focus on the relationship with their client while delegating non-essential tasks to outside professionals.

Non-client-facing tasks are eating up significant chunks of an advisor's time. Cerulli Associates found in 2017 that advisors only spend 52% of their time performing client-facing functions, while 28% goes toward administrative work. Meanwhile, recent benchmarking analysis by Dynasty Financial Partners found that outsourcing activities to a shared platform, such as the one that it offers, contributes to better margins. Earnings Before Owner and Advisor Compensation (EBAC) is a variation on the standard Earnings Before Owner Compensation benchmark that is meant to deliver a consistent comparison between firms with different ownership structures. Earnings Before Owner and Advisor Compensation made up 62% of

firm revenue for firms on the Dynasty Network. Meanwhile, industrywide EBAC rates were 56% among RIAs analyzed by Advisor Growth Strategies, 58% among firms analyzed by Investment News/Pershing and 48% among those reviewed by Schwab, according to Dynasty.

A Changing Landscape

Dynasty Financial Partners found that independent advisors are more open to outsourcing than they were five years ago. “Like many maturing industries before it, the independent wealth management industry’s attitude towards outsourcing has evolved in the last five years as the industry has grown and matured,” says Ed Swenson, COO, Dynasty Financial Partners. “There is a realization that ‘doing everything yourself’ is neither desirable (from a profitability perspective) or sustainable.”

What to Outsource

Financial advisors can outsource more activities today than ever. Advisors can now outsource operations, particularly the paperwork needed to set up new clients, marketing, including websites and other marketing materials, human resources, events planning, and even social networking, according to Financial Advisor Coach and CEO of Elevating Your Business Maria Marsala. She does warn that advisors should handle some aspects of social media on their own, but they can still outsource creating a social networking site, developing the profile and writing social media posts, as long as they approve them before they are published.

Advisors are also increasingly outsourcing compliance, as complying with the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and state regulators becomes increasingly cumbersome, according to Derek Bruton, chief operating officer of Chalice Wealth Partners.

“Keeping up with the frequent regulatory changes, while also trying to decipher the ‘gray’ areas of the rules and regulations, is just something most advisors would rather not deal with on a daily basis,” he says. “Plus, no one wants to deal with the penalties and embarrassment of not staying in compliance.”

Outsourcing Investment Management

Despite the growing number of outsourced activities, the biggest-ticket item remains portfolio management. It is the one area almost all experts say should be outsourced.

“It’s clearly the largest fee, depending on the size of your practice — it certainly is for us — but it’s well worth the cost,” says Dan Cuprill, a financial advisor and president of the business coaching firm Advisor Architect. Advisors who decide to handle portfolio management on their own, meanwhile, are likely doing it because they’re ego-driven, he says.

“All of the major custodians, the larger digital advisors and most exchange-traded fund providers do that job effectively and inexpensively,” says Jason Gordo, Head of FinLife Partners West, at United Capital. “Why would an advisor make portfolio management the place where they want to compete? Instead, compete in areas like client value, client experience; clients will gravitate to the advisors who helps them live rich, not the advisor who is constantly helping them die rich.”

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1 OUTSOURCE ANYTHING OUTSIDE YOUR CORE COMPETENCY

"When deciding where to start, advice firms should evaluate what they do well and consider outsourcing non-revenue producing tasks outside their core competency. Advice firms that are primarily focused on money management, for example, should look for a planning partner or two who can provide superior service to their clients," according to John Mackowiak, chief business development officer at Advyzon. "However, it may make sense for some firms to eventually bring outsourced services back in house at some stage, so it's important to keep a close eye on the outsourced functions," he says.

2 LOOK FOR SOMEONE WITH THE SAME INVESTMENT PHILOSOPHY

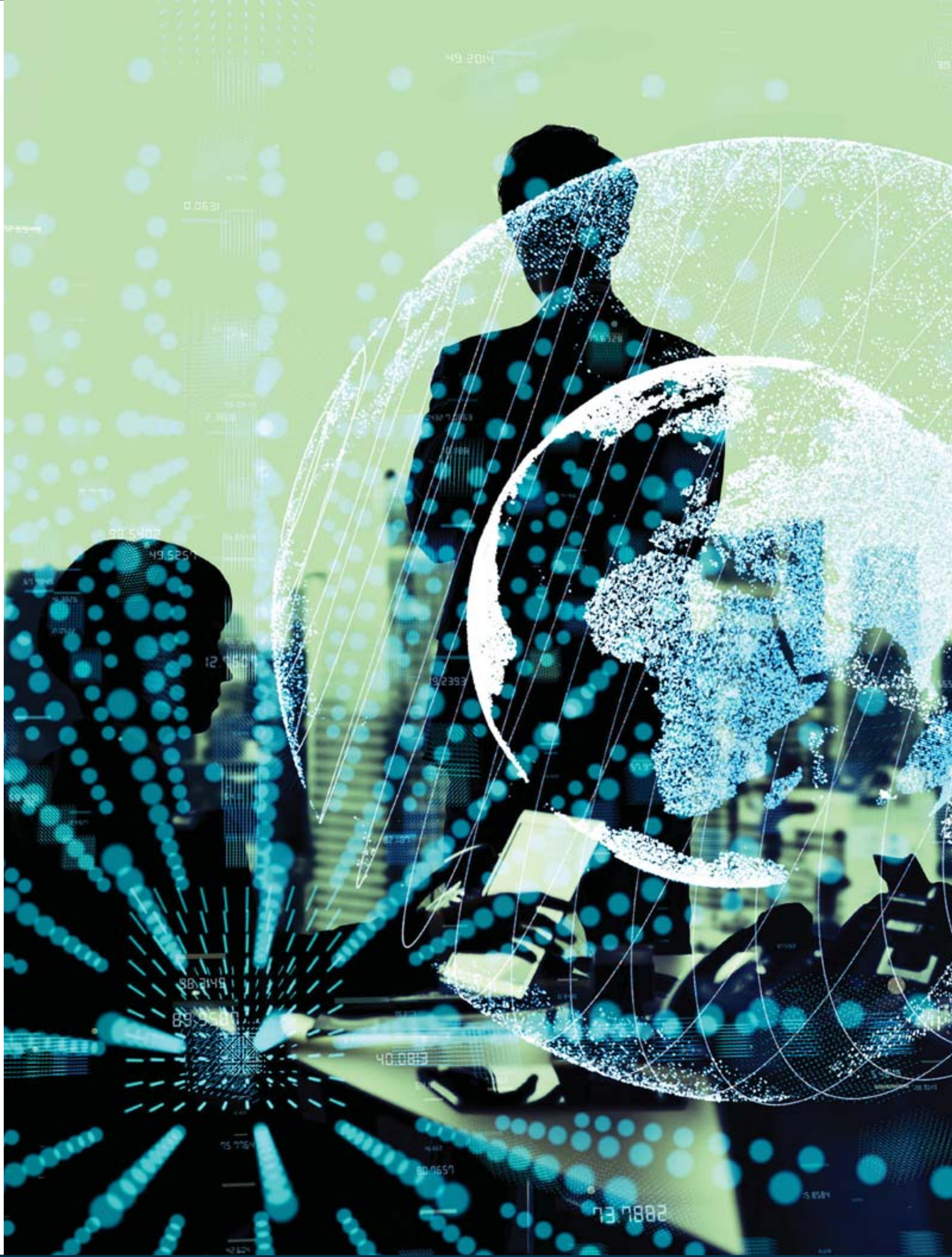
When looking to outsource portfolio management, Cuprill suggests looking for a partner with a similar worldview. Advisors who believe that news and markets are unpredictable, for example, should turn to portfolio managers who will primarily buy, hold, or rebalance across a broad spectrum of asset classes.

3 UNDERSTAND WHAT IS INVOLVED

Advisors need to understand their role in the outsourcing process. In portfolio management, Cuprill says it is important to know whether the advisors will only need to fill out a few forms or are expected to be involved in every portfolio rebalancing. The key is to remember that the main reason to outsource is to free up time.

4 TRY TO STICK WITH ONE PROVIDER

While there are myriad service providers with various competencies and levels of service, it is prudent to stick to just one provider when possible, experts agree. A single point of contact makes it easier to resolve issues, and a single platform for managing all the outsourced functions means advisors do not have to jump from one software to another, according to Mackowiak. Some turnkey providers, including Dynasty, meanwhile, allow advisors to add



on outsourced functions over time as they see results and gain trust. Most advisors who have never outsourced before favor this route, but some come ready to outsource an entire array of functions, according to Swenson.

5 DO YOUR RESEARCH

The downside to working with only one provider for the various outsourced activities is that advisors will need to do more upfront evaluation than if they were picking up one service at a time from various vendors, Mackowiak says. Marsala, meanwhile, suggests approaching it just as a regular hire.

"As a consultative-coach, I tell those who interview me, to also interview two others," says Marsala. "Outsourcing is a hiring process, and everything you'd do to hire someone – from how to find them, to questions to ask each person, to job descriptions, to firing practices — are a must, even when you're outsourcing."

Asking the right questions should be further complemented by reviewing results. Gordo suggests talking to three to five of the provider's current customers to ensure the firm is capable of delivering on its promises.

6 STAY UP-TO-DATE WITH THE PROVIDER'S COMPETENCIES

Service vendors do change over time. In some cases, as they expand their services, whether through developing them in-house or acquisitions, the new offerings may not be as strong if they fall out of their focus areas, according to Bruton. It is therefore advisable to re-evaluate the providers over time.

7 DO NOT START TOO SOON

While outsourcing can save substantial money on operations for many firms, smaller advice firms should probably wait, according to Dynasty's Swenson. Companies that manage less than $300 million need to stay focused on keeping the team lean and growing assets as quickly as possible.

In addition, Swenson warns that outsourcing is probably not for that "rugged individualist" type of advisor who prefers to do everything him or herself. Their growth rate and margins will probably be affected, but the tradeoff is worth it for such advisors on a personal level.

Conclusion

As the industry has matured and the availability of service providers to handle outsourced functions continues to grow, financial advisors stand to gain tremendously by outsourcing all activities not essential to what they do best: helping clients.

"Our singular focus as advisors should be to help clients live their richest lives possible. That does not mean save more, invest more, make more," says Gordo. "It means to help a client use money as a tool to live a life full of great memories and stories to share."