

Outsourcing: Does It Help?

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By Bruce W. Fraser

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As financial planning becomes more comprehensive and demands from clients grow, more financial advisors are creating virtual office practices by outsourcing tasks—such as back-office administration, bookkeeping, portfolio management, reporting, technology, even compliance—they used to do themselves. The virtual concept is that you work with a network of other vendors who are independent business owners and don't require ongoing training. Because of their wider experience they often can provide a much better quality of input than a simple employee.

In effect, through a support structure of firms who will work for you, not as employees but as outside service providers, you can create a substantial planning practice with few or no employees. The practice is catching on. To be sure, many advisors already are outsourcing, using outside attorneys and accountants, for example.

The ideas of extending the practice to other planning tasks is permeating all advisory levels today—from boutique shops up to larger organizations. "The smaller advisor will often use outsourcing as a way of avoiding the need of employees, while a larger organization will use it as a means to fill in positions where they may not want to hire a full-time person," says David J. Drucker, co-author with Joel P. Bruckenstein of *Virtual Office Tools for a High Margin Practice: How Client-Centered Financial Advisors Can Cut Paperwork, Overhead, and Wasted Hours*. Both authors are columnists for this magazine, and publish the monthly newsletter *Virtual Office News* (www.virtualofficeneeds.com).

Outsourcing has many advantages. It reduces human resource costs (salary, benefits). "You just pay for what you use," says Drucker. "You aren't making a full-time commitment."

It allows you more time for client service. You also tend to get better quality of input from an independent professional than from an employee with limited experience, says Malcolm Greenhill, an advisor who operates a virtual office practice in San Francisco and outsources extensively.

At the same time, working with third parties, often strangers, can present challenges, such as loss of control over a task. The ultimate risk with outsourcing, of course, is that at some point you may outsource the relationship with the client as well, or the vendor will go out of business.

Drucker and others scoff at this notion: "They can't take a relationship if they don't have client contact." Greenhill agrees, saying, "If you don't outsource the client contact you'll never lose the client."

Lisa A.K. Kirchenbauer, a CFP licensee and financial life planner in Arlington, Va., outsources financial planning data input and initial reports and functions dealing with bookkeeping, technology, compliance and performance reporting. Kirchenbauer explains that she is trying to outsource all the work she can at this point so she can focus on her relationship with clients. "It's about freeing up the time to focus on the client and my own personal goals," she says. "If I don't have to have all these employees in-house, I can save money on taxes and benefits, and general overhead costs."

She has also begun to utilize the resources of money management firm SEI. "I've made the change because I realized that investment management is really more of a commodity and tangential to the overall financial planning work I do," she says.

Among the challenges she faces are setting clear expectations and deadlines, the time involved (which relates to cost), as well as staying on top of what has been outsourced. "Responsiveness can be an issue sometimes," Kirchenbauer says, "but more often it's about me not planning ahead properly. It's hard to make last minute requests when the person is not in-house."

She also worries about security issues—for example, information getting into the wrong hands—and uses an encrypted Web site to exchange information, in particular with her financial planning resource.

Does she have concerns about losing control? "Once you make the decision to outsource, you've already made the decision to give up some control," says Kirchenbauer. "I've learned to surrender many things in life so I can have the kind of business and life I want. Outsourcing is a necessary part, but you have to learn to give up some control, be more organized and clearly communicate your needs and expectations."

Advisor Greenhill operates a virtual office practice and outsources all functions except those having to do with direct client contact. These include the preliminary parts of the financial planning process, investment management functions, administrative tasks, bookkeeping and compliance. His office location also is virtual; he works from home and only uses executive office suites for client meetings.

Greenhill travels extensively, spending at least six weeks a year in England. He no longer tells clients he is going away because they get the same high level of service. "My office is any Starbucks worldwide," he quips.

Most vendors he uses have secure intranets, which allow secure document uploads and downloads, and he won't work with outside parties where he hasn't approved their nondisclosure policies. Greenhill also is a believer in systems that duplicate functions. He carries a laptop everywhere and uses a BlackBerry, which came in handy last summer in England when he accidentally spilled water on his laptop. To make his virtual office truly seamless, he'd like to see widespread adoption of electronic signatures by vendors. "I still have to print documents for clients to sign," he laments.

K. Esther Szabo, a planner in Los Altos, Calif., also has used outsourcing effectively to enhance her practice, saving on hiring and real estate expenses. She had her own business until 2003 and outsourced many functions to a firm on the East Coast: compliance, portfolio management, software reconciliation and reporting, as well as duties associated with business consulting and drawing up preliminary financial plans for clients.

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- *Virtual Office News*, monthly newsletter, contact sherry@virtualofficeneeds.com.
- International Association of Virtual Office Assistants, www.iavoa.com, (918) 753-2716.
- Staffcentrix LLC, www.staffcentrix.com, (866) 974-3521.
- Assist University, www.assistu.com, (866) 829-6757.
- Elance Services and Contract Management, www.elance.com, (650) 316-7501.
- Nina Feldman Connections, www.ninafeldman.com, (510) 655-4296.

"Everything was done when we walked into the office at 7:30 in the morning," says Szabo, who has since merged her practice with another firm, Allied Consulting Group. They currently outsource portfolio management software reconciliation to a third party.

Though Szabo believes in the effectiveness of outsourcing indirect client support roles, she has some concerns about outsourcing elements of financial plan work. "You aren't in the same room to pick up nonverbal cues from the client to tell you how they may be responding to a particular strategy and recommendation," she says. "Your outsource client doesn't know the client as well as you do. So the recommendations they may build into the plan, while they can look good on paper, may not be the ones the client would be ready to implement."

Szabo strives to maintain good relationships with vendors. "You have to keep a good relationship because you depend on them just like you would an employee in your office, and they're taking care of your data. Anything that leaves your office and gets sent to a client is a reflection on you."

None of these planners fears losing clients because they outsource. Says Szabo: "I think there's a bigger chance of losing the client if we don't have the time and the human resource focus in our practice to give our clients the one-on-one attention they deserve. If our attention is diverted to trying to figure out ways to pay additional employees to do functions that can be outsourced effectively, the risk is that the attention isn't focused on the client. It's too scattered."

"We're in the service business. The client is not interested in the mechanics of our back-office," says Greenhill. "They're interested in having a quality interaction with their planner."

For their part, how do vendors who service such virtual office clients juggle so many balls in the air? How do they manage multiple clients, multiple deadlines, and at the same time protect their clients—and their clients' data—in a society rife with identity theft concerns?

The way they do it, says Szabo, is by "keeping things as uniform as possible so they don't have to go in and tweak and do extra pieces for you. They also work on volume a lot."

eTelligent Consulting, for example, has made outsourcing portfolio management services easy for advisors like Kirchenbauer, a client of the firm. It can define a process once and spread its application out through 50 or more clients, says Jim Starcev, managing principal. "We do that with corporate actions and downloads. We process work throughout the quarter. A lot of people [who do it] in-house may put that off and do it once or twice a quarter, for example. We do it daily."

Security is always a concern with the Overland Park, Kan., firm. The accounts and reports that clients access are controlled by a password. Clients have their own databases, and can customize them for billings, specific asset classes, report settings and other functions. Employees are fully screened. There are backup sites for redundancies. All data is stored in a single location and controlled by passwords. "By contract we guarantee that the client owns their data and guarantee privacy of that data, as well," says Starcev. "It's their data, not ours."

Total Office Inc. of Akron, Ohio, handles some of Greenhill's account administrative and paperwork, mails his birthday and holiday cards and helps maintain his database. The firm, which juggles such duties for about 50 clients, also checks e-mails and phone messages. It has the capability to confirm trades, transfers and make client withdrawals. It can set up appointments for meetings and seminars, and design Web sites and PowerPoint presentations.

"It's really a balancing act," says Sherry Carnahan, Total Point's ebullient president, "because we never know what's going to come in and how long each task is going to take, except for the recurring tasks. Those are easy to plan and schedule and are done regularly."

Sometimes the transition from doing everything yourself to working virtually can be a bit rough. "We try to give them as much

instruction on how to transition as possible,” says Carnahan. “Sometimes we have to hold their hand at the beginning because they’re new. A lot of advisors have a hard time letting go and giving work to us.”

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