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Cover Story

Taking Off

Since he started outsourcing last year, **Steve Wightman**

By Melanie Waddell

The market meltdown combined with the events of September 11 took a toll on **Wightman's** planning business last year. Spooked by the shaky market performance, prospective clients that were about to come aboard shied away, causing **Wightman's** workload to drop.

But by reducing his employee overhead through an outsourcing plan that he implemented earlier that year, **Wightman's** practice was able to weather a downturn in new client fees while maintaining a healthy revenue stream. "With outsourcing, you're not paying a staff every week, so it becomes more flexible and profitable, especially for a small practitioner like myself," says **Wightman**, a sole practitioner with Le Financial Management, a fee-only planning firm in Lexington, Massachusetts. "When the market drops out for us as far as new clients, or just the inverse of that, if you're really busy, outsourcing helps even more. We're only paying for the actual services, unlike a practice that is always paying the same amount [to employees] regardless of how busy or efficient they are."

Since delegating back-office and administrative support, technology, and marketing services to other professional firms, **Wightman** has not only increased the quality of services that he devotes to clients, he's also opened up more time to pursue his passions of building and flying his own airplanes. Now he's watching both his business and personal lives soar to new heights. Thanks to outsourcing, his year-end 2001 margins of 28% are projected to skyrocket to a whopping 94% by the end of 2002. "I've seen my net profit more than double since I started outsourcing," he says. In his spare time, he's constructing the world's fastest flying single engine amphibious aircraft, the Seawind.

Like other small planning firms—and even larger ones—**Wightman** has found that he can run a more efficient—and lucrative—practice by getting rid of "unnecessary" tasks. Those mundane, time-consuming, and expensive chores that bog down even the most proficient advisors, and keep them from growing their businesses and serving

By letting go of a "do-it-myself" attitude—not always an easy feat for most advisors—**Wightman** has also freed himself from becoming a jack-of-all-trades, a predicament that many advisors find themselves in when their business snowballs. "I found myself becoming a human resources manager instead of a financial advisor," he says.

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than wasting time, money, and energy on training an employee who could up any time, **Wightman** decided to turn over low- or no-profit tasks to those per firms with the needed expertise. “[Outsourcing firms] want referrals so they excellence. Their reputation is on the line and they know it.”

Surely balancing a successful personal and work life is within every advisor’s New technology innovations as well as the Internet have without question br array of outsourcing options available. And outsourcing is becoming an acce business model among a variety of businesses. According to Dun & Bradstre Barometer of Global Outsourcing, outsourcing in the United States was proje grow from a \$295 billion business in 2000 to a more- than-\$340 billion busir 2001.

Asset Management, Trusts, and More

An informal Investment Advisor poll of advisors who are outsourcing service that many are using the tried-and-true turnkey asset management programs o SEI Investments, Brinker Capital, Lockwood, and Frank Russell; these firms outsourcing separate accounts. Among the most popular services being outso database management and back-office support, accounting, recordkeeping, re technology, marketing services, Web sites, and portfolio management via Ce and TechFi’s product, Portfolio 2001. Advisors are also outsourcing their int administration, payroll, and tax preparation.

Outsourcing is also creating opportunities for advisors to add services that th using before, like trust services, philanthropy, account aggregation, and the administration of 401(k)s.

Popular names being bandied about in trust services are Capital Trust Comp Delaware, Wilmington, Delaware, (www.ctcdelaware.com) and Santa Fe Trust C Santa Fe, New Mexico. And new on the philanthropic services block is Foundation Source of Norwalk, Connecticut (www.foundationsource.com).

Mark Tibergien, director of Business Succession Services at Moss Adams, ct advisors to use this rule when contemplating which services to outsource: “If translate the service into either one that clients would value and use consider that is going to cost you great sums of money to have as a permanent offering commensurate return, you might consider outsourcing. It’s kind of like the de about whether to lease or buy. Buy it if it’s going to produce returns and you leverage off of it.”

To be sure, most advisors are accustomed to redefining themselves as their b evolves and as clients pressure them with ever-increasing demands. But Mar CEO of Undiscovered Managers in Dallas, says the current market environm forcing advisors to run a more efficient business. “For the first time, advisors a hidden subsidy in their revenue,” he says. “Through the 1990s you had 18% returns in the equity markets, and even if you deduct for fees and assume tha have some part of their clients’ portfolios in bonds, you’re still talking about 14% to 15% a year. So an advisor’s costs could go up 10% a year, and they v see margin expansion if they weren’t adding clients. Well, guess what happed

now the market is negative; let's assume we give 5%, 6%, 7% a year returns. with a balanced portfolio of any kind, you're going to be generating returns in a 4% range, which means margins are going to come down by 7% a year, and that's gross margins. So let's say I'm a typical advisory firm and I have a 30% margin before I pay the owners any compensation. If I am going down by 7% that means the owners' compensation is being cut by 25% a year."

Before the market crumble in 2001, Hurley says, advisors could shake off some operating efficiencies or cost accounting because the market's growth rate masks potential cost inefficiencies. "Even if you think the market is going to go up, it's not going to go up that much."

The Virtual Office Solution

David Drucker, principal with Sunset Financial Management Inc., in Albuquerque, New Mexico—who's co-authoring a book with fellow NAPFA member Joel Bruckner on virtual office tools—says that by investing in technology, advisors can move beyond dire predictions that say they must either establish a niche or grow their firms. "A lot of these [advisory] firms are chugging along at 50% overhead rates and have become resigned to the fact that that's the best they can do," he says. "I think they don't realize that it takes a major paradigm shift in their thinking to change those numbers dramatically, but it can be done."

Drucker shifted his business model by splitting from his former financial planning business and creating a one-person C corporation. "I looked around to see if it was possible to outsource every staff function I'd had in the past to either a separate person or independent contractor, and eventually was successful in doing that," he says.

"My concept of a virtual office is really putting together the labor side with the technology side, and outsourcing is half of the puzzle," Drucker says. "The other half is all the different technologies you can use to replace human functions, or just save tremendous amounts of time and space that had been very inefficient to your business."

Drucker now runs a virtual office, using a CFP who performs planning functions for clients via the Web. He also uses a virtual account administrator to perform the number crunching, setting up Schwab accounts, handling the money, setting up automatic withdrawals from the account, and IRA distributions. The core communication process, Drucker says, is via e-mail and Intranets. For administrative support, he uses Sherry Carnahan, who runs a virtual secretarial business called Total Office Solutions based in Akron, Ohio. "Of all the people, she's very critical," Drucker says; "she's the person I'm in touch with the most." And then there's the virtual trader. "I act as an independent broker who does about 95% of the investment work for my clients, making sure their asset allocation is on target, their liquidity needs are being met, and those things." He also uses Centerpiece reporting for an asset management service provided by Asset Management Solutions in Vista, California. The company has recently renamed Back Office Support Service.

Since moving to a virtual office structure, Drucker's profit margins have ballooned—unbelievable! My profit margins are in the 75% to 80% range consistently. And that [growth] is because of outsourcing."

Drucker says that, as a whole, advisors aren't embracing outsourcing. "We are at the leading edge [of outsourcing]. Opportunities are growing pretty rapidly, but acceptance isn't," he says. "Everybody has heard of outsourcing or examples there are peers who may be doing it, but very few [advisors] have adopted it in a wholesale manner."

What keeps some advisors from outsourcing, Drucker says, is a false assumption: different due diligence steps are required when retaining an outsourcing firm. When he speaks about this topic at conferences, people say to him: "Don't you have to have confidentiality agreements with these people because you don't have any control over them?" What he tells them is that you've got the same situation as someone who is in the office with you from day to day; there's no difference. You need the same safeguards, the same confidentiality agreements, understanding and hiring process, and the same reference checking process."

Getting Support, Electronically

Back Office Support Service, which still uses the Web address www.assetsolution.com, is a company that popped up quite a few times during reporting for this story. It is run by president and CEO Mike Kelly and basically provides database management services. "We take the [advisor's] download from whatever custodian they've got—Schwab, Waterhouse, Pershing, Vanguard—and we will download those files onto our site, process the data, clean it up, get rid of the duplicate transaction information like cost basis on receipts of securities," Kelly says. "We then transmit that data electronically from our office to the advisor's office, so unlike a traditional service bureau, the data physically sits at the advisor's office by the time we finish with the process."

Back Office Support Service currently works with advisors who are licensed under the Centerpiece and TechFi's Portfolio 2001.

By using the company's database service, Kelly says advisors eliminate the need for training inexperienced employees. "And what happens when the employee you hire is hired away? Gets sick? Goes on vacation?" Kelly says. "We provide continuity. We've got people assigned full time, including backups."

Advisors can also realize cost benefits. Back Office Support Service supports a wide range of companies—CPAs, advisors, and broker/dealers—with practices ranging in size from \$5 million to \$1 billion in assets. On the low end, Kelly says, an advisor would pay about \$400 a month, depending on the service level required. "So it definitely makes sense for the small advisor to use us as opposed to hiring a staff."

Tom Gryzmala, a planner with Alexandria Financial Associates in Alexandria, Virginia, has been using Back Office Support Service for two years now, and couldn't live without the service. "They provide superior service," he says. "It's the beauty of the Internet that makes outsourcing doable." Before turning its database over to Back Office Support, Gryzmala says his firm was shelling out \$26,000 to \$28,000 on an annual salary. "You spend the first few months teaching them and coming in on week after week to fix all their mistakes; then people would get bored and be out of here in three months," he says. "It's the smartest thing I've done."

Gryzmala also has outsourcing relationships with local estate attorneys and agents, and outsources the administration of his client's 401(k) plans to Sprir Virginia-based Automated Retirement Plans, operated by Toni Kelly. "That's advisors should be looking at—to outsource the administration of the 401(k) because it's labor-intensive." Kelly, he says, "is one of the smartest women c plans."

The Tech Solution

By developing a virtual network through an outsourcing relationship with a Web service called GoToMyPC.com (www.gotomypc.com), **Wightman** figures \$55,000 in technology costs. The virtual network, which has helped him create a paperless office, contains all of his practice's files and documents, including tax filings. The service provides his two main outsourcing buddies, Christine Bar A-Pinch and Norman Brucks with Coyote Technologies, Inc., with 24/7 access to **Wightman**'s practice. In-A-Pinch (www.in-a-pinch.com) in Waltham, Mass. provides back-office services, while Coyote, based in Cambridge, Massachusetts, provides access to all **Wightman**'s Web site and computer concerns.

"I can designate Web files that they can access [on my server]," **Wightman** says. "Instead of us sending files back and forth, they can just go to the files and pull them out and then store them back on the network as if they were here in the office."

Wightman also uses AdvisorIntelligence's research on mutual funds, stocks and bonds. AdvisorIntelligence (www.advisorintelligence.com), owned by the highly regarded California fund manager Litman-Gregory, provides advisors with a turnkey research and management solution.

Stephen Savage, managing director of AdvisorIntelligence, says advisors can use Litman-Gregory as their CIO and use its model portfolios of no-load funds on a label basis, custody their assets, and access customizable PowerPoint presentations. "These services translate into a complete outsourcing solution for an advisor's investment strategy. A good number of advisors are also using AdvisorIntelligence to outsource their research department, he says. "Advisors might not view Litman-Gregory as their entire investment strategy solution; they might have their own overlay or derivatives strategy, or what we are doing, or use it as validation or cross-check," Savage says. "But we do a very extensive level of research that we do on the underlying mutual funds and asset classes, which is part of tactical asset allocation approach."

But there are some downsides to outsourcing, **Wightman** says. "You don't have as much control, so you have to go on the [outsourcing firm's] schedule." For example, In-A-Pinch also does bookkeeping and tax work, "so she's taking on a whole lot of tax work and she's not going to be very available." That's why **Wightman** has to hire another administrative person to fill in the gaps.

Help for the Hands

Sherry Hazen-Cohen, a planner with Dream Achieve Planning Network in Philadelphia, outsources the labor-intensive inputting of information into her Quicken program to Sherry Fabricant at Financial Outsource Solutions (outsourcepro@ev1.net). Hazen-Cohen takes six months' worth of clients' expenses and inputs the data into Quicken

analysis and planning. “After she inputs all the information, I’ll put a budget a client, put assets in, amortize their mortgage, and burn them a CD.”

Steve Gorman, a sole practitioner with Gorman Financial Management in Hingham, Massachusetts, and Al Coles, a planner with Financial Design Associates in Huntington Beach, California, are two fans of Krisan’s Back Office, in Charlottesville, VA.

“For me, the back office outsourcing is the only way I could be a sole practitioner,” Gorman says. “Having someone do that task was essential to growing my practice and really staying in business.”

Coles outsources his portfolio accounting to Krisan’s. “For a very low cost I can get the work done with Krisan,” he says.

Lou Stanasolovich, a planner with Legend Financial Advisors in Pittsburgh, PA, outsources nearly everything, including the planning firm’s payroll, its compliance, its bookkeeping and its Web site. And the planning firm is contemplating outsourcing trust services and account aggregation as well.

Legend Financial has a very sophisticated Web site, Stanasolovich says, than AdvisorSites (www.advisorproducts.com), which is owned and operated by IA Executive Large Andy Gluck. “We actually picked up a client the other day because he provided detailed information on our Web site.”

Account aggregation services offered through Total Personal Services in Long Beach, New York, could be the next outsourcing service Legend adds, Stanasolovich says. The firm is “an administrative family office that pays your bills, reconciles your credit card account, lets you know what bills need to be paid, asks you to respond to invoices, and tells you when your car needs to be inspected. It’s a great service.”

Advisors “will get used to the [outsourcing] concept slowly but surely,” Stanasolovich says, and he believes it’s okay to tread lightly at first because “it takes a while to get comfortable with somebody you’re comfortable with.” But advisors “are going to have to get used to it because they are going to be competitive, especially with the more sophisticated firms out there.”

There is certainly an abundance of outsourcing options for advisors today. If you spread yourself too thin to create momentum in your business, or you’ve let your workload diminish the quality of your personal life, maybe now’s the right time to let someone else help you carry the load.

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