TechTalk

Managing Your Practice in a Difficult Environment

by Gregory H. Friedman, CFP

As a financial planning practitioner and owner of a growing firm, I have heard, for many years, predictions about the future of the financial planning profession. Considering the observations of Mark Hurley's report in 1999 and followed with subsequent reports by Mr. Hurley, a primary conclusion (among many others) was that competition would increase and it would become increasingly difficult to make money for small financial planning businesses.

Over the past several years, Moss Adams has done a great job of gathering financial performance statistics for financial planning firms and creating benchmarking reports. These reports have confirmed some of the financial difficulties facing firms, including increasing costs without a corresponding increase in revenues (otherwise known as margin compression). In other words, it is becoming more challenging to increase profits for the "typical" growing financial planning firm. Another consistent finding was that firms were at capacity for serving clients, and to augment services or continue to grow would require a fairly high increase in costs (additional employees).

What does all of this have to do with technology? A great deal! Adequate technology and office systems are essential for you to run your financial advisory practice efficiently, effectively and profitably.

The Project

We undertook the project of doing a detailed analysis of our firm. The goal of this analysis was to get a clear picture of the services we were providing to each client, the cost of providing these services, our overall efficiency in different areas, and also to develop tiered client service models to better match services with revenue. We looked at the following information and statistics:

- Assets under management per client
- Time spent per client: the direct time spent (tracked) with an additional amount of time ("overhead hours") added to every client
- Revenue per client
- Revenue per client per hour
- Time spent per activity: how much time the office spent scanning client documents, preparing financial plans and so forth
- Overall cost structure (to determine roughly our "break even" hourly rate)
- Fee schedules (per client)
- Client Score (this is something that is in our office management system that creates a "score" for a client using factors and criteria we define such as revenue, referrals and future potential)
- Current client services
- Client services we will be adding

How We Gathered the Data

How did we gather the data? In a word, systems! At a minimum, you should have a system that tracks…

- All client (and non-client) activity
- Time spent, both per client and on the various activities
- Assets under management
- A “client ranking” function
- Reporting and querying functions

The information on revenue and overall costs came from our accounting systems (Quickbooks). We combined all of this information in a series of Excel spreadsheets in order to look at the information in a variety of ways, including performing analysis such as determining averages and medians. If you would like a template of the worksheet, you may e-mail me at greg@friedmanassociates.com.

Two major considerations to keep in mind: (1) a system that will accomplish all of this needs to be used for some time in order to develop the data and (2) the system needs to be flexible so that you can create many different types of reports based on what you need to look at.

What Did We Learn?

This project and analysis provided valuable insights into the workings of the firm. Some of the things we learned:

- Our largest clients were clearly subsidizing the services provided to our smaller clients
- Our largest clients were not receiving enough attention and services for what they paid (and we pay a lot of attention to large clients)
- There was not a good match between the services being provided to many clients and what they were actually paying
- In many cases our fees were too low
- Several of our highest-revenue clients were not profitable!
- We were not efficient in certain areas (that is, too much time spent, such as in scanning)

What Did We Do About It?

Although some of the things that we learned were expected, the process of analyzing and organizing this information was tremendously useful. We now had specific information with which to make decisions to take the following actions:

- Developed specific, tiered client service models (Platinum, Gold and Silver).
- Developed a list of “base services” for the Silver clients, and then added services for the Gold and Platinum clients to better match the services provided with revenues and profitability.
- Analyzed our services and streamlined how we were providing these services at all levels. For example, we simplified our portfolio reports, and moved entirely away from providing paper reports to the Silver clients, instead providing only Web-based reports.
- Analyzed in-house activities for greater efficiency. For example, scanning has become a task to be done by part-time high school students at a lower cost.
- Outsourced functions where it made sense. For example, we hired Back Office Support Services (www.assetsolutions.com) to handle our portfolio accounting system downloads, reconciliations and billing. This was in lieu of hiring an additional employee.
- Modified the way we were charging fees. Examples include increasing fees outright for certain clients, and adding hourly fees to Silver clients for providing additional services beyond the base services.
- Used this as an opportunity to develop firm-wide, specific service standards. Examples include how promptly to respond to client calls and turn-around time for financial planning activities.
- Added services for Platinum clients. This is critical in our view to remaining competitive and retaining clients. Examples are a more formalized annual review process and concierge services.

In addition, undertaking this process helped clarify the vision of the firm and how best to implement it. It was a great reminder of whom we work for and what we want to do for them.

Conclusion

Again, what does this have to do with technology?

First, having great technology systems allowed us to do this analysis in the first place—and in a short time. Second, once some of the problems and issues were identified, it was technology that offered solutions to provide a higher level of services to clients at a lower cost.

A recent article contained several interesting quotes. Art Shaw, CEO of MyCFO, said that one of the many things he has learned in his tenure as chief executive is that “the power of technology is to serve our people, who in turn serve our clients.” Mark Hurley said, “Technology is just a tool for doing things. It’s not the value added, and it doesn’t determine whether you succeed, only whether you can compete.”

At the end of the day, it is our personal services and relationships that matter most to clients. However, we owe it to our clients to run good financial planning businesses, and to prosper financially in order to ensure that we are here for them in the future.

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