You’ve finally got your firm’s technology under control. The software supports your business efficiently, the hardware is working reliably, and you can concentrate on serving clients instead of servicing servers. Then the problems begin: two vendors that supply critical software packages just announced major upgrades and you’re not convinced the upgrades are critical or cost-justified. A server is showing signs that it’s headed for a crash, and your compliance officer just noticed that you might need a new e-mail review procedure and monitoring software to avoid potential problems with regulators. In the space of just a few weeks, your neatly wrapped technology system is coming undone, and it looks as though it will cost considerable time and money to get back on track.

You can’t run a financial planning or wealth management business without the right technology. But for some advisors, technology is as much a source of aggravation as profit. Their frustration is understandable because it seems they are always reacting to unwanted tech changes that are beyond their control.

In contrast, other advisors are satisfied with their systems. Although they often wish their software could perform some tasks differently and they suffer the same mechanical problems as their peers, they mostly get what they need from technology. It supports their businesses but doesn’t require an inordinate amount of expense or attention. This article explores how these advisors have mastered their systems and shares their insights for getting in front of the tech curve.

**Starting with the Business Plan**

Firms satisfied with their technology share a common element. First, they develop and adhere to a strategic plan for their business. They then support their strategic plan’s overall business objectives with a technology strategy. They recognize technology’s importance to their business, but it plays a supporting role.

Mike Baker is a principal with RightSize Solutions Inc., a financial services-industry technology consulting firm in Overland Park, Kansas. Baker has consulted with numerous investment advisors and says that while many have a business plan, most do not have a well-thought-out plan for the technology they use. Wes Stillman, founder of RightSize Solutions, says that his company’s consulting engagements often start with a review of the client firm’s business plan. “That gives us a metric by which to measure how their current technology environment not only meets the day-to-day regulatory requirements, but also how it’s lining up with where they want to go, how they would like to get there, and how fast they would like to get there,” says Stillman.

Lassus & Wherley & Associates P.C. is a mid-sized wealth management firm with a staff of 24 and offices in New Providence, New Jersey, and Bonita Springs, Florida. Kevin McCormick, the firm’s full-time technology and operations manager, says that the firm’s technology takes a back seat to coming up with the right strategy for the business. The
firm's management team developed a strategic plan in 2005, and while they review the plan annually and update it as needed, the objectives outlined four years ago still drive the major tech decisions. "We certainly could not have predicted the market environment today," says McCormick, "but we knew the company was growing. We knew what types of clients we’d be taking on and that regulatory requirements were going to become stricter over time. We knew that there would be an increased need for remote access to the company for traveling employees. We also have a growing branch office that we knew we would want to use more heavily."

Recognizing these trends in the business allowed McCormick to focus on identifying potential tech solutions that would support the firm’s direction. For example, one goal was to improve the level of service to clients by responding to them more quickly, providing more informative reports, and keeping track of client communications. At the same time, McCormick sought tech solutions that reduced operating costs and facilitated compliance with regulations.

Small firms can adopt a similar approach to integrating technology and strategy. Sheila Chesney, CFP®, owns a wealth management business in Sheldon, South Carolina. It’s a virtual office practice, and Chesney jokes that she shares her office with three Labrador retrievers while her staff members, who work from remote locations, assist her in serving a national clientele. Chesney operates from a five-year business plan that spells out the firm’s direction, target client, and the desired scope of the business at the end of the five years.

One of the plan’s goals is to work with a small number of clients without limiting the practice to the local area. Consequently, Chesney knew she would need technologies that would allow her to work efficiently with dispersed clients and staff. "We are small and want to stay small,” she says. "We only want a certain client, and that client is not going to be geographically located here. That client is typically going to be a high-income or high-net-worth business owner or professional, and we want them wherever they are located, regardless of time zone. So that’s the way we have structured the business: to enable us to adapt to that person’s lifestyle. People who are busy and successful don’t have time during the day, so we work around their schedule, and that’s how the technology piece fits."

Identifying Core Services
Several years ago business consultants began preaching the notion that businesses should identify their core competencies and streamline operations to focus solely on those competencies; activities involving non-core competencies should be outsourced. Although the "core" concept has lost some of its trendy status, the idea still makes sense, particularly for financial advisory firms in which the service offering is relatively straightforward and the software categories to support those services are easily identified.

"There's always the core three: CRM, financial planning software, and portfolio management software," says Joel Bruckenstein, CFP®, president of Global Financial Advisors Inc. in Miramar, Florida and co-publisher of Virtual Office News. "In addition, there are general productivity tools, which would be anything from computers, hardware and software, Microsoft Office, your e-mail system, your backup systems, that kind of thing. You have to at least start thinking about your core, the products and services you use. You have to decide which ones you want in-house, which ones you want out-of-house."
Chesney takes a similar approach. “I think if you look at what’s core to the business, there are certain parts of the business that are just major drivers,” she says. “The financial advisory business is going to be financial planning services and portfolio management services. And then maybe you can probably separate it into a third one, which is client services or client administration. So you’ve got basically three pieces, and if you look at those three pieces, you have to then say, which of those three pieces lend themselves to technology first?”

**The Tech Planning Process**

Once you’ve developed a strategic plan and identified your firm’s core strategies, it’s time to include a technology strategy. Ideally, a tech strategy will achieve multiple objectives, according to Baker. First, it helps to manage the cost of technology. Second, it allows the advisor to get control of the firm’s technology. And finally, he believes, it helps control risk. “There’s a lot of risk in being an advisor,” says Baker. “You’ve got operational risk, regulatory risk, reputational risk, and financial risk. Those four things can be greatly affected by how effective your plan for technology is.”

McCormick says that Lassus & Wherley supports its objectives by creating a large list of potential tech projects based on the firm’s overall strategy. The firm’s technology committee reviews and updates the list periodically as they research the projects and develop estimates of each project’s costs. The project-evaluation process goes beyond costs, however, to include additional criteria, says McCormick: “We’re asking, what are the business objectives? And then which projects most closely align with those business strategies for the year? It’s my role as technology manager to ensure that our tech projects don’t deviate from our overall business objectives. So we base our tech projects for the year on what the company’s projects are for the year.”

Chesney updates her tech strategy periodically, as well. She works with technology consultant Kim Moulton of Cubed Strategies; Moulton specializes in consulting to financial services businesses and helps Chesney plan the evolution path for her firm’s technology to ensure that the technology is supporting Chesney’s vision for her business. “She (Moulton) does an update to the technology vision statement, which is essentially saying, here are the key pieces of the business,” says Chesney. “What does your technology framework look like? Where are you in terms of going forward? And each piece of the technology function is then updated for the future.”

Chesney points to several recent tech decisions that resulted from the collaborative planning. She currently leases her on-site servers, and the lease expires at the beginning of 2010. She and Moulton agreed that they could outsource the server function and eliminate the need for on-site storage in 2010. Another example was the decision to switch to a web-hosted customer relationship management (CRM) software. Chesney had started with Act! and switched to Junxure. She has now migrated to XLR8, which is a customized, Moulton-developed version of the Salesforce.com platform. (Chesney’s experience shows the potential in going the virtual, that is, outsourced route, but that topic is beyond the scope of this article.)

Ideas for tech strategies can come from multiple sources within a firm, as well. Chris Cordaro, CFP®, a wealth manager with Regent Atlantic Capital in Morristown, New Jersey, says that his firm’s tech plan evolves from “bottom-up and top-down input.” Bottom-up strategies evolve within the various functional components at the firm, such as...
the financial planning or investment management staffs. In those cases, a staff member brings the tech idea to the management committee for consideration.

Top-down inputs frequently result from the efforts of the firm’s managers to improve efficiency: “better, cheaper, faster,” as Cordaro likes to say. He cites an example of the firm’s decision to upgrade the Monte Carlo simulation tools it uses in clients’ projections. The management committee decided to modify the analytic process it follows for the financial independence analysis it gives clients. The goal was to improve the efficiency of the calculations’ worksheets and enhance the output that clients receive.

“Back in 1996 or so, when we started using Monte Carlo simulations, there wasn’t any software that actually did it, so we built our own Excel template,” says Cordaro. “For about ten years we’ve been using that template, but with any Excel-based solution you keep cobbling together and adding more things on it and revising things. We decided that we needed to improve it and add features, so we decided to hire a consultant to help us take what we had and clean it up, streamline it.”

Managing Tech Decisions
The arrangements of who makes the tech decisions vary among advisors. McCormick and Cordaro’s firms have a sufficient number of tech-savvy managers and staff to justify committee-based decisions. Chesney, who spent 25 years with IBM, relies on Moulton as her tech consultant. In other firms, though, tech management tends to fall on a principal or staff member who does the work in addition to performing other (often full-time) duties.

That’s the case with Scott M. Barbee, CFP®, and manager of Wealth Advisory Services at Truepoint Capital LLC in Cincinnati, Ohio. Barbee’s official title is wealth manager, but as the firm grew, he became the unofficial chief technology officer. He says that many of his ideas for tech improvements have been generated through reading industry publications, attending conferences, and through the firm’s participation in Fidelity’s Advisor Council. Although he enjoys working on the firm’s technology needs, Barbee believes serving two roles is not the best solution for the business. Truepoint has recently created a technology committee that meets at least once a month, a process that assists Barbee; but he still would prefer to see at least one dedicated, full-time employee as tech manager.

“I think there are significant advantages to be gained (by having a full-time manager) because this is such a complicated area and fraught with potential for very significant issues, especially as it relates to security,” he says. “In a perfect world, I would not be doing the technology aspect of my job. As much as I like doing it, sometimes sacrifices have to be made, whether it’s relying on somebody else to get back to a client when you’d really like to do it yourself or to tell people they have to sit tight on some technology issue when you’re dealing with some very urgent client issues.”

Managing in-house tech staff brings its own set of challenges, however. Ken Schapiro, CFA, president of Condor Capital in Martinsville, New Jersey, has found that tech staff often have a more restricted focus than a wealth management firm needs. He believes that many of the tech staff available to small- and mid-size advisory firms “tend to be more nuts-and-bolts people” who lack a wider perspective on the business.
Schapiro owns two non-financial businesses in addition to Condor Capital, and his IT director splits his time among the three businesses. To keep the tech manager focused, Schapiro and the IT director review ongoing projects’ priorities and status each week. “That way, there’s a lot of communication going on with your tech person and you’re managing them more effectively to get the end results that you want,” says Schapiro. “What you find a lot of times is when owners have tech people, they tell them something and then they just send them away (to complete the task). Then they don’t revisit these things for a few weeks, and that’s probably not good enough because the nature of a tech person is more nuts-and-bolts as opposed to big picture.”

Hiring a tech consultant avoids the cost of staffing a full-time position. As Chesney’s experience shows, the right consultant can provide valuable strategic and tactical advice. Hire the wrong consultant, though, and you might not realize much value-added from the relationship. In Bruckenstein’s experience, consultants are “very uneven.” Many of them are primarily network administrators, which is a valuable but limited role, he says: “So they’re really good at networks, but they don’t really know anything about databases. Or there are a lot of people who tend to specialize in databases but they don’t know a lot about networks. And even if they know about both, if they don’t know about the wealth management business or whatever branch of wealth management or financial services you’re in, the advice is going to be jaded.”

There’s also the problem of potential conflicts of interest, Bruckenstein observes. “There are all kinds of conflicts of interest when it comes to IT people because some of them have a vested interest in selling one product, either because they get more money for selling their product or because that’s all they’re really competent in,” says Bruckenstein. “So you’ll ask them, ‘What about an Oracle database?’ And they’ll say, ‘No, you should stick with this Microsoft database.’ Well, maybe that’s because that’s all they know how to install and operate.”

Spending Money
A common observation among software developers who create programs for financial advisors is that advisors small- and mid-sized firms, at least don’t like spending money on technology. They want world-class software for budget prices, and that mentality translates to their spending patterns. Schwab Institutional’s 2007 MKT (Market Knowledge Tools) report, “Best Managed Firms: It’s About Time,” found that most firms spent less than 2 percent of their annual revenues on IT.

Bruckenstein frequently encounters that thrifty attitude. “I think the problem is more psychological,” he says. “People come in and they say, ‘This is too expensive.’ Compared with what? That’s really the question. I was just at a conference a couple of weeks ago and somebody asked me a question about CRM. He was complaining that he was spending $50 a month, let’s say, on CRM software, and that was too expensive. I said, ‘You probably spend more than that a month at Starbucks. What’s a better use of the 50 bucks?’ It’s really pretty much that simple.”

IT spending outlays vary, of course. Chesney estimates that she’s spent an average 7 percent of her revenues on tech in recent years. McCormick says that while his firm prefers to develop software internally whenever possible, if the firm must buy a program, it tries to identify and buy the best available solution. “We’re always going to go for the highest tier possible, if developing isn’t an option,” he says. “We’re not even going to consider a cheap alternative if we’re looking at an accounting system, or a CRM package, or a portfolio system.”
Unfortunately, even if you do buy the best available software and hardware, you’re likely to encounter the dreaded obsolescence problem eventually. Bruckenstein cites an example of a Fujitsu scanner he bought eight years ago. At the time, it was a state-of-the-art product that scanned 18 pages a minute. The machine still works, but Bruckenstein has upgraded to a new model in the interim. “Now, when I put it next to my 40 page-a-minute Fujitsu, it seems kind of slow,” he says. “One rule of thumb I have with hardware is if I’m waiting for the hardware as opposed to it waiting for me, it’s time to upgrade. Because what’s my time worth per hour? If I can save even ten minutes a day not waiting for that scanner, in less than a year the thing’s going to pay for itself. And same thing with software. Add up all those little minutes spent waiting over the course of a day and multiply that by your hourly rate, and it’s pretty easy to figure out how much money per day you’re losing on that thing. If you project that out over a month or a year, the numbers are just mind-boggling.”

Living with Uncertainty

The advisors and consultants interviewed for this article believe it is possible to reach a position where an advisor can deal with technology proactively, but they stress that the equilibrium will always be temporary. Some disruptions might be initiated internally by changes in the business model, growth, or the ongoing search for efficiency; other disruptions arrive through the environment. It’s easier to plan for the former, while the latter are much less predictable.

No matter how your firm manages technology, however, failing to develop a tech strategy or abdicating responsibility for that strategy to a third party is risky. Fortunately, it doesn’t take an excessive amount of time or cost to stay reasonably current with tech trends. FPA’s Business Solutions 2009 conference features multiple technology presentations. Bruckenstein and Dave Drucker, CFP®, publish Virtual Office News (virtualofficenews.com), a newsletter that focuses specifically on tech developments for financial advisors. The pair also hosts the annual Technology Tools for Today (T3) Conference. Custodians are ramping up their efforts to assist their advisor-clients, as well, and many of the consumer-oriented tech publications such as PC World contain useful articles in most issues. Staying current with technology isn’t an option—it’s a critical element to developing and maintaining a viable strategy that keeps you in front of change. In a sense, it’s the same as any other aspect of running an advisory business. “If you never go to an FPA conference to bone up on retirement planning, you’re always going to be reactive, not proactive, because you’re waiting for problems to occur, and then you’re educating yourself as opposed to educating yourself first,” says Bruckenstein. “This is no different.”

Ed McCarthy, CFP®, is a freelance writer in Pascoag, Rhode Island. He admits to being a recovering tech addict who recently traded in his smart phone and its expensive plan for a simple, inexpensive pre-paid model.

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