

Adaptation in the Aftermath

Synopsis: *Here's a methodology that allows you to turn your business goals into actual steps, and monitor how well the changes are working for you.*

Takeaways: *Be more open to your custodian/back office's overtures to help you, and assess how effective they are. And as you make changes to your practice, pay particular attention to your motivation and willingness to execute.*

By the time you read this, Inside Information will have introduced a new white paper to the financial planning profession, which might be viewed as an update of the first Undiscovered Managers report that came out in the Fall of 1999. Like that earlier report, the new white paper offers some bold predictions about the future and identifies some reinforcing drivers--the market meltdown's difficult aftermath; financial trauma at many advisory firms; an impending transfer of business assets from the founding generation of advisors; new technology and dramatically more efficient ways to adopt it into the practice; new relationships with custodial firms and broker-dealers; new client services; a new investment paradigm; and financial planning delivered profitably, through a variety of emerging business models, to middle-market consumers.

Of course, I explain the logic behind every prediction, and show that most of them are already happening. But the underlying

goal is to help us all recognize the trends, and where they're taking us, during this complicated period of very rapid professional evolution.

There's always a high degree of danger in these periods, and also remarkable opportunity. In the past, these were times when between 10% and 25% of advisors were either washed out of the business or fell into stagnation and irrelevance. Others would take market share and create highly-profitable, high-service enterprises. The difference between one and the other is information, awareness, understanding and a willingness to embrace the future instead of instinctively fighting change at every turn.

Now that tax season and quarterly reports are safely past, it's time to look up from our desks and see where the world is taking us. The white paper report, which is downloadable from my web site and will be sent out to all subscribers shortly, will serve as an unfair advantage for those who read it. And here, in this newsletter, we'll follow up on the various trends and

how best to take advantage of them.

In fact, with this article, that process has already started. I sent out a number of preliminary copies of the white paper to various thought leaders--chiefly the people who were quoted or mentioned, who had brainstormed with me about where things are going and why. The very first feedback I received came from Spenser Segal of ActiFi, creators of the RoadMap service, which I describe in some detail in a section of the report that looks at the democratization of practice management advice.

Segal offered some additional thoughts on the future, and also (most importantly) some of the most effective strategies for making positive changes in your advisory firm--the absolutely crucial element to embracing the future.

Let's start by looking at your available resources. Segal agrees with one of the sections of the white paper, which says that, in the past (and, for many, in the present) there has been a dysfunctional relationship between broker-dealers/custodians and advisors. The larger back office service providers, he says, are the only ones with the scale to provide practice management advice and service (and tools) for either a modest price or for free; theoretically, they benefit when that advice is taken, those tools are adopted, and you become more efficient and do more business through them. Win-win, right?

Not quite. One problem, as Joel Bruckenstein has pointed out, is that advisors have been reluctant to get too dependent on their back

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office provider, which means that giving away free advice, service and tools has been a hard sell. Segal points out that another problem is clutter; a lot of the custodial/BD initiatives have been more hype than substance.

After the market meltdown, however, advisors are taking a second look at what kind of services are being offered that can help them operate more efficiently. Bruckenstein says that the initial "killer app" being given away was rebalancing software, since many advisory firms couldn't rebalance client portfolios by hand quickly enough to respond to the gyrations in the market. The next killer app will be practice management services.

Segal offers a cheat-sheet to help you figure out if your custodian/broker-dealer is a leader or laggard in this trend. He identifies four tiers, or categories, that these firms fall into.

Tier I: We will send you a statement and a confirm, and execute your trade really really well. In this day and age, this level of service has been commoditized.

Tier II: We will do the above, plus give you some cool technology that will let you look up accounts and transfer money and track everything online. This represents a leapfrog game, where one firm comes up with a new tool, and then everybody else copies it. The tool-creation process also seems to be commoditized, in the sense that many firms will be doing it, and it will be hard to differentiate

between them based who comes out with which tools first.

Tier III: We will really learn the nuances of your business and service you in a way that you feel really good about. At this point, a company is beginning to differentiate itself with customized service. As Segal says, if the back office is serving them well, advisors are unlikely to move their business even if somebody comes along with a better offer.

Tier IV: We're going to help you build a better business. "Most of the time, this is marketing hype," says Segal. "But you are beginning to see a movement from hype into reality." The white paper identifies a few examples of in-house practice management consulting (Pershing Advisor Solutions; Fusion Financial Network), the creation of something comparable to the iPhone online app store, and ActiFi's RoadMap (offered by TD Ameritrade).

So the first point here is that the advisory firms which most successfully navigate their way to the future outlined in my white paper will make themselves open to a more cooperative, mutually-beneficial relationship with their custodian--and, of course, identify and work with a custodian/back office that is offering benefits. In the white paper, I predict that as these free services become easier to "sell," the custodians/back offices will see a return on their investment and spend more on new services, creating a virtuous win-win dynamic in the profession.

Meanwhile, Segal says that there is one characteristic that, if you have it, you are more likely

than other firms to get positive practice management results and be able to move forward than your peers. This characteristic will be a determining factor as to whether you're one of the winners or losers during times of rapid professional evolution.

And it is... motivation. "The best analogy is the personal trainer creating a workout schedule," says Segal. On the one hand, you have one trainer who creates a terrific schedule of exercise, which works different combinations of muscles on different days, offers strength training and cardiovascular improvements, and all it takes is a four hour a day commitment on your part. Of course, you never get to the gym, so this elegant exercise plan does you no good at all.

The other trainer offers you a more modest program, which may not be nearly as beneficial--on paper. But if you actually do get to the gym three times a week and follow this inferior program, your results will be far better than they were with the terrific trainer.

"One of the biggest mistakes that coaches and consultants make in the financial advisory field is to take the motivation and execution as a given," says Segal. "They think, if I can just give them the right answer, then the motivation will magically materialize, and the advisor will follow through. In the real world, it's a terrible assumption."

In his own work with advisor offices, Segal has begun to focus on motivation and implementation first, and the quality of the strategy becomes a secondary concern.

"If I know recommendation 1 will produce better results than recommendation 2," he says, "but I also know the advisor is really motivated to follow through on recommendation 2, and I know it will be beneficial, then I'm okay with saying, let's execute on number two, and we'll come back to number one after we've seen some results." The single most important thing, Segal says, is to get the staff convinced that a genuine, positive change is underway, and to see that there is actual follow-through, tracking, accountability, and for everybody to see real results. From there, the whole process of making positive changes will have credibility going forward.

Naturally, I asked for examples as to how this would work in the real world. Suppose, says Segal, that he does an analysis and identifies two fundamental issues that the advisor could address. One is that the service model is very inefficient. The advisor has seven people doing the work that others are able to delegate to two. The second issue is that the firm is not doing a great job of collecting referrals from clients. The client to referral ratio is much lower than the industry average.

"In that case, my strong recommendation would be to focus on the service model, and get that tuned, and then go to referrals," says Segal. "But if the advisor says, I don't have the appetite to tackle that, and the service people really aren't onboard with it, and I'm really excited about getting this referral thing fixed, then that's where I'd start," he says. "Even though fixing

the service model first might be a better strategy, I would much rather have them tackle something they're motivated to follow through on."

And, he adds, if the referral process becomes more efficient, it will create more pain in the service area, and also generate more revenues. The advisor will be more motivated to get more efficient and develop more capacity, and he/she can use the additional revenues to fund the revamping of the service model. "The hard lesson that you learn as a consultant," Segal says, "is that if you don't have motivation on your side, it is very difficult to push through the pain of change, no matter how good the advice or the plan." Execution is everything.

The other insight Segal has to offer is that changes happen most effectively, surely and sustainably if there is a process in place--and not just any process. At this point, the reader is invited to open up the graphic that I've attached when I sent out this newsletter. (When Segal sent me the graphic, I thought about incorporating it into my newsletter format, but the reader can see it more flexibly as a separate attachment, where it isn't constrained by the boundaries of the printed page.)

This is the outline of a process for making any practice management changes in your office. Notice the word "start" on the lower left side of the page. Clients (those shadowy figures outside the practice) are offering feedback, and the advisor, dressed in orange, is creating goals--which are represented by rocks. (Notice a couple of goals sitting

on the ground at the advisor's feet.) Throughout the graphic, you'll see the advisor accompanied by a coach or consultant, dressed in blue; this may be somebody you hired or a facilitator from your custodian or broker-dealer. Here, at the beginning of the process, the consultant is loading the advisor's goals onto a conveyor belt, where they go through a process that refines the overall goals into strategies, and the strategies into tactics, and the tactics into actionable tasks.

Refines the what into the what? Let's say you want to increase overall assets under management from existing clients--that's what one of those big "goals" rocks represents. That has to be translated into actual things you would do in the office in order to achieve the goal. The first step is to identify which strategies can A) achieve the goal, and B) are appropriate to the advisor's practice. Suppose, for example, that the advisor has a number of senior executives for clients. The consultant (and RoadMap) might zero in on stock options. If the advisor can create a systematic process for analyzing clients' stock options, and help them execute those options, then it might bring in an extra \$5 million in assets. On the other hand, if the client is working with small business owners, then this strategy will be rejected in favor of something else.

Moving from strategies to tactics (notice in the graphic that the goals are being broken down into manageable pieces), the advisor might purchase a software product

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like StockOpter, get somebody on staff trained in the software, and develop a service procedure for every client that looks at the stock options and provides recommendations.

These tactics are broken down into tasks. Who will evaluate the different software programs? Who will perform the analyses for clients? Will existing clients be contacted to get stock option information so that the process can get started? "The goal here is to have bite-sized, fully-controllable, no-excuses actual tasks that the advisor has 100% complete control over," says Segal.

Then, of course, somebody has to actually perform these tasks. Notice that the tasks are fed into a little machine with the words "Who completes the task?" on the side. There are two pipelines; one leads to the advisor's table (or, more likely, to a staff person's); the other pipe takes those tasks to "outside resources."

Deciding which pipe the tasks will go in is a crucial step in the process, but it isn't rocket science. Here, Segal (or the outside consultant) asks what he calls the will/skill question. "I'll say, is there somebody who is going to do this task, who has the will to do it, who wants to do it, who has the skill to do it, and also the time," he says. "We don't want to assign tasks to people who don't have the will, skill or the time to do them. All we're doing then is frustrating them and frustrating us."

"If the advisor says, I don't have anybody who has either the

time, will or skill to do this task," he adds, "then we start to tap into outside resources. Is there some outside vendor who could do the stock option analysis? The important thing to remember is, if we don't do it, we can't measure the results. If we DID do it, then we can look at how we moved the metric."

This results-measuring process takes place on the right side of the page. Notice the blue sign on the wall, which represents accountability. The question that the managing advisor needs to ask is: did we do what we said we would do?" If so, then a rock placed on the "completed" conveyor on the right side of the page. If not, then it's time to reevaluate the will/skill/time of the staff person the task was assigned to, and maybe look at those outsource providers.

Notice the teeter-totter arrangement after the "completed" conveyor belt. The completed tasks drop into a bucket, and the advisor and consultant measure the results. Did these strategies, translated into these tactics, translated into these tasks, move the metric? Did the advisory firm get more assets under management than projected, less or none at all?

And, yes, it's possible that the additional work won't have any positive effect on the bottom line. In our example, Segal hypothesizes some of the reasons: clients weren't interested in the stock option service, or the analysis wasn't very good or effective. The advisor may not have communicated the value proposition effectively. At the end of the process, between number three and the beginning at number

one, there will be analysis, and the advisor will either modify or continue the strategy, depending on what the metrics say.

There are a few other confusing elements on this graphic that ought to be pointed out. Notice on the far left, you have the "Financial Institution," with pipelines that connect it with the advisory practice, and with other advisory practices off in the distance toward the upper left of the graphic. This represents a process, like RoadMap, which allows the back office/institution/broker-dealer to track the progress of all the different advisory firm it services in some systematic way, to see what has been recommended, what has been tried, what has worked and what hasn't.

"Right now, most of the wisdom and past results and other information walk right out the door every time a relationship manager leaves the institution," says Segal. "What you want is to capture that experience, the wisdom learned one advisor at a time, and build that knowledge into a scalable practice management delivery platform."

Later in the interview, Segal pointed out that virtually all advisory firms are small businesses—a point prominently made in the "Future" white paper. But the practice management consulting world is even more fragmented, built with even less scale. He expects that to change, as advisors become more open to receiving help and tools from institutions, and as others see, in the accelerated evolutionary environment, the need to make adjustments and adaptations faster than they can on

their own. "We originally designed RoadMap for ourselves to get leverage," he says. "But we found we can make a lot more impact on the world, for a lot more advisors, if we are training the trainers." He says that it's always helpful to have an outside consultant working with the advisor in conjunction with RoadMap, to coach, encourage and identify areas where the processes need improvement.

In what was by far the most important part of our discussion, Segal called the White Paper report "an awesome piece of work," and then he offered some suggestions which were incorporated into the final version. As I say in my projection of the (bright) future for the profession, adapting to the changes that are coming will be A) difficult and time consuming, and B) rewarding to a degree that wouldn't have been possible five or ten years ago.

In our little corner of the marketplace, fortunes will be won or lost in the next ten years (or less), and this time, here and now, represents your best opportunity to create the firm you always wanted, provide the services you always wanted to deliver to your clients, and generally get where you want to go. In this article, Segal offers a companion piece to the white paper. The process he outlines may be more valuable than advice on where to go or what to do in this interesting, complicated environment; it's a process that takes any reasonable business goal and makes it more likely that you'll achieve it. More and more, that is the skillset we need, and the key to the future. ■