

# Technology Strategies of Top-Tier RIAs

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## Introduction: The Undeniable Truth

Technology—you can love it or hate it, but you can't ignore it. As frustrating as it can be to keep up with new developments, modern technology can offer real value to those who embrace it.

The wisest RIAs invest in technology to satisfy one overarching goal: to increase productivity. Advisors are adopting new technologies not just to keep up appearances, but to more effectively manage their client accounts.

Of course, providing effective counsel to clients depends enormously on having instant access to information. Advances in technology have both enabled and complicated this ability by offering countless ways to retrieve, store and exchange information. With so many options, RIAs can make smart technology decisions by understanding the changing landscape of the financial industry, the practices of successful firms and the technology these firms use.

“When aligning technology investments and operations with firm goals, profitability is not a goal. It is an outcome.”

### InvestmentNews Research

#### About the 2013 Adviser Technology Study

The mission of InvestmentNews Research is to provide financial advisors with the industry's most informative practice management studies and benchmarking reports.

Led by VP and InvestmentNews Publisher Suzanne Siracuse, Editorial Director Jim Pavia, and Director of Digital and Data Strategy Mark Bruno, its research studies are supported and driven by a team with over 40 years of combined experience and exposure to the ever-evolving financial advisory business.

InvestmentNews Research fielded the 2013 Adviser Technology Study (sponsored by Laserfiche) from November 2012 – January 2013. It surveyed hundreds of advisors to provide a diverse set of snapshots that you can use to measure your investments in technology, not just in terms of capital investments but detailed expense allocations and specific selections of both software vendors and products.

This trend report summarizes key findings from the study.

Several factors contribute to the growing need for technology for RIAs, including:

- ▶ **Increased audits.** Since the Dodd-Frank Act passed in 2010, compliance has been an even greater concern for advisors. With increased scrutiny from both state regulators and the SEC, which is currently increasing its auditing staff, advisors are facing complex audits on a more frequent basis.
- ▶ **The price of policy.** The extra documentation and man-hours needed to follow state and SEC regulations increase costs—and that's before an auditor ever walks through your door.
- ▶ **The needs of a new generation.** Today's employees and customers are more familiar with Bluetooth® than The Moody Blues. RIAs should genuinely embrace technology in order to attract clients and empower staff.
- ▶ **Competition on a global scale.** Advisors aren't just competing locally—they're up against anyone in the world with an opinion on investments and internet access. Today's consumers are just as ready to trust a search engine as they are to trust a legitimate financial advisor.

Collectively, these drivers of change make technology more than an attractive feature to clients. Technology is a necessary strategy for company sustainability.

“The investment advisory industry is coming to an inflection point based on dramatic changes in regulations and technology. In order to succeed in the new world order, advisors will need to embrace emerging technologies to simplify their back offices and meet new compliance mandates.”

Timothy D. Welsh,  
CFP, President of Nexus Strategy, LLC

### Getting Technology Advice from Advisors

Despite the fact that RIAs exist solely to offer advice to others, the dialogue amongst advisors about technology investments and back-office practices has been limited. The explanation is simple enough: share your secrets and say goodbye to your competitive edge. But a 2013 study conducted by InvestmentNews Research has opened the doors of communication by evaluating 317 financial firms' shifting attitudes toward technology.

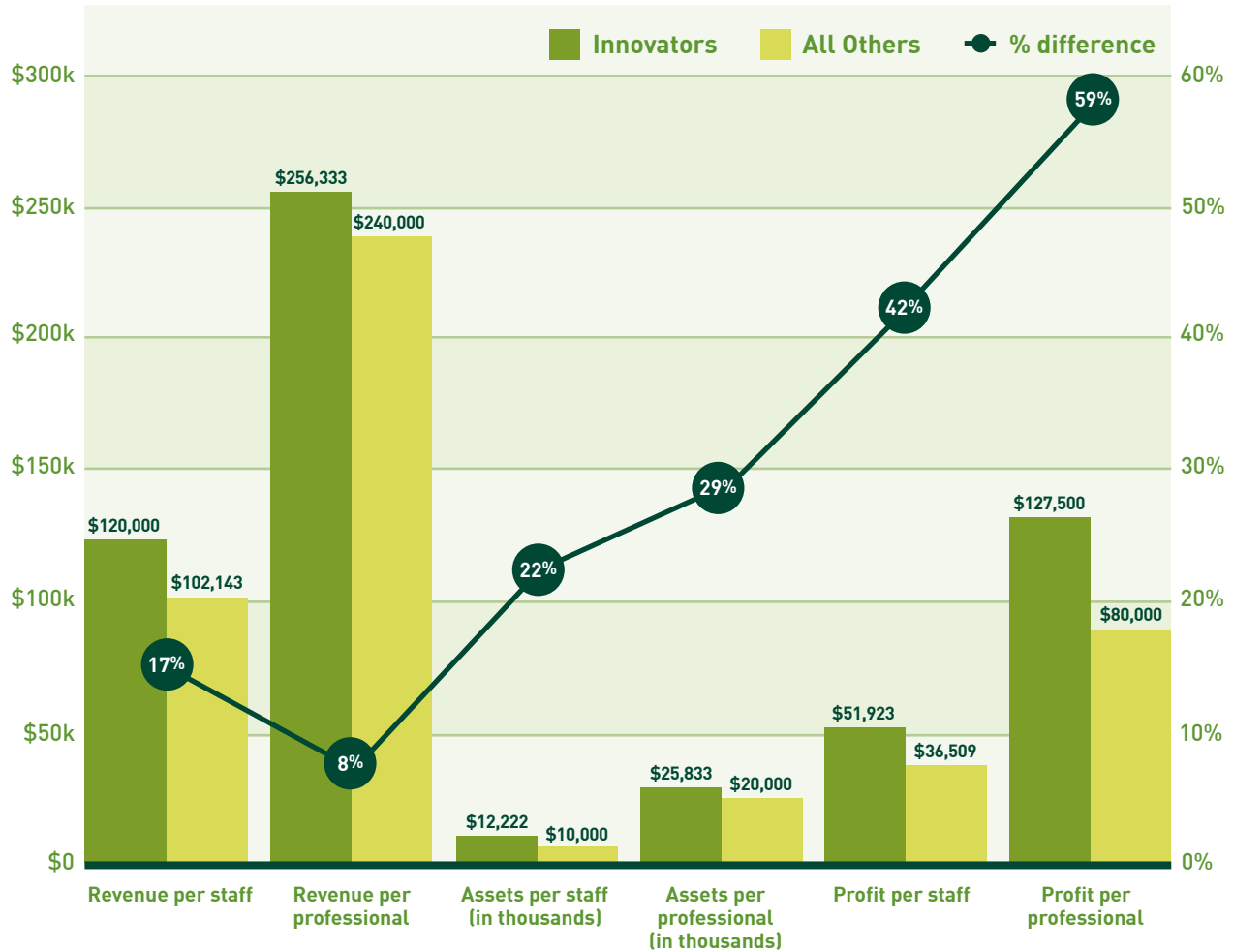
The study identifies top-tier companies that embody a progressive approach to technology, treating it as a critical business asset instead of a discretionary expense. The differentiating factor, therefore, is not merely the kind of technology used, but the attitude taken toward technology.

Data from the study demonstrate that these innovative companies don't just have the best IT systems. Rather, top-tier firms are categorized as innovative because:

- ▶ They cite **productivity—not profit**—as a top business priority.
- ▶ They **don't spend a higher percentage of their budget** on technology than other firms—they simply optimize what they have.
- ▶ They **access and use their technology more often and in more places** than other firms via cloud and mobile applications.

By shifting the primary objective from cutting costs to maximizing productivity, these firms actually see greater revenue, profits and profit margins. This top tier of financial firms earns an average of 17% more revenue per staff and 42% more profit per staff than all others.

## Innovators: Productivity Matters



### The Paradox of Profit

"I'm too busy handling or acquiring clients to focus on back-office improvements."

Clients are your source of income and always will be. But ignoring the investments that could improve company efficiency and productivity will adversely affect your client rapport.

So when you're deciding whether to invest in a software upgrade or more advertising, remember that your job is to provide excellent service to your clients. Make your technology enable—not inhibit—that level of service and watch your business grow.

## The Technology Behind RIA Success

Taking into consideration the document-centric nature of complying with industry laws and the rising demand for on-the-go access to information, 86% of innovators have incorporated document management software into their technology platforms. This allows advisors to store all their client documents in a digital repository and access them easily and instantly.

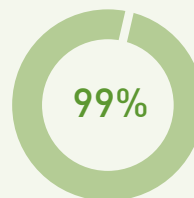
Along with document management software, the most innovative firms use **up to five other software solutions** to conduct daily business. But managing multiple applications can be as time-consuming as client interactions—which hampers productivity. To avoid this pitfall, innovators use multi-functional software and integrate their applications.

One of the most multi-functional software solutions is enterprise content management (ECM). ECM goes beyond digital document storage to help firms:

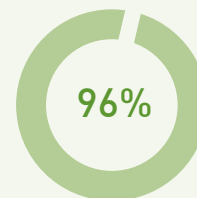
- ▶ Efficiently prepare for audits.
- ▶ Streamline business processes like new account opening.
- ▶ Automate records retention and destruction schedules.
- ▶ Reduce or eliminate manual processing errors.
- ▶ Improve communication and transparency between departments and offices.

Forward-thinking advisors seek out ECM systems that provide these functions and integrate with CRM software. Through this integration, advisors can easily access documents within their CRM, meaning they don't have to learn two different software systems.

### Top Tech Used by Innovators



CRM



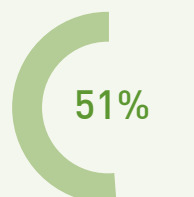
Financial  
Planning



Document  
Management



Portfolio  
Re-balancing



Compliance

## Integration: What's the Real Value?

In a recent study, independent research firm Aite Group found that RIAs that integrate software systems **earn about 20% more** annually than their competitors. Employees with access to integrated software **spend 32% less time on operational processes**, leaving more time for client management and prospecting.

For example, Wealth Enhancement Group (WEG), a Minnesota-based financial planning and advisory service firm with locations throughout the upper Midwest, uses a CRM-ECM integration to store and access client files. The integration allows documents to be viewed the day after they're received, eliminating field requests and expediting core business processes from start to finish.

"When you're in a service business, and that service is dependent on the timeliness of information, the fact that everything's at the fingertips of the advisor teams is priceless," explains Ken Severud, Senior Vice President and Chief Operating Officer at WEG. "When our advisors are able to efficiently pull up information and answer client questions, that's great service."

In addition to improving customer service, the integration has allowed WEG to:

- ▶ Decrease paper consumption by 450,000 sheets or 900 reams of paper annually.
- ▶ Free up nearly 2,000 square feet of physical space by archiving legacy paper records.
- ▶ Redeploy one and a half full-time employees from photocopying to value-added activities.

## Conclusion

In today's post-recession climate, advisors are more challenged than ever to follow tightening regulations and still turn a profit. To excel in the current landscape, top advisors have focused on productivity and the technology that enables it. By shifting the conversation to back-office efficiency, these firms are successfully managing more clients and accounts than their competitors.

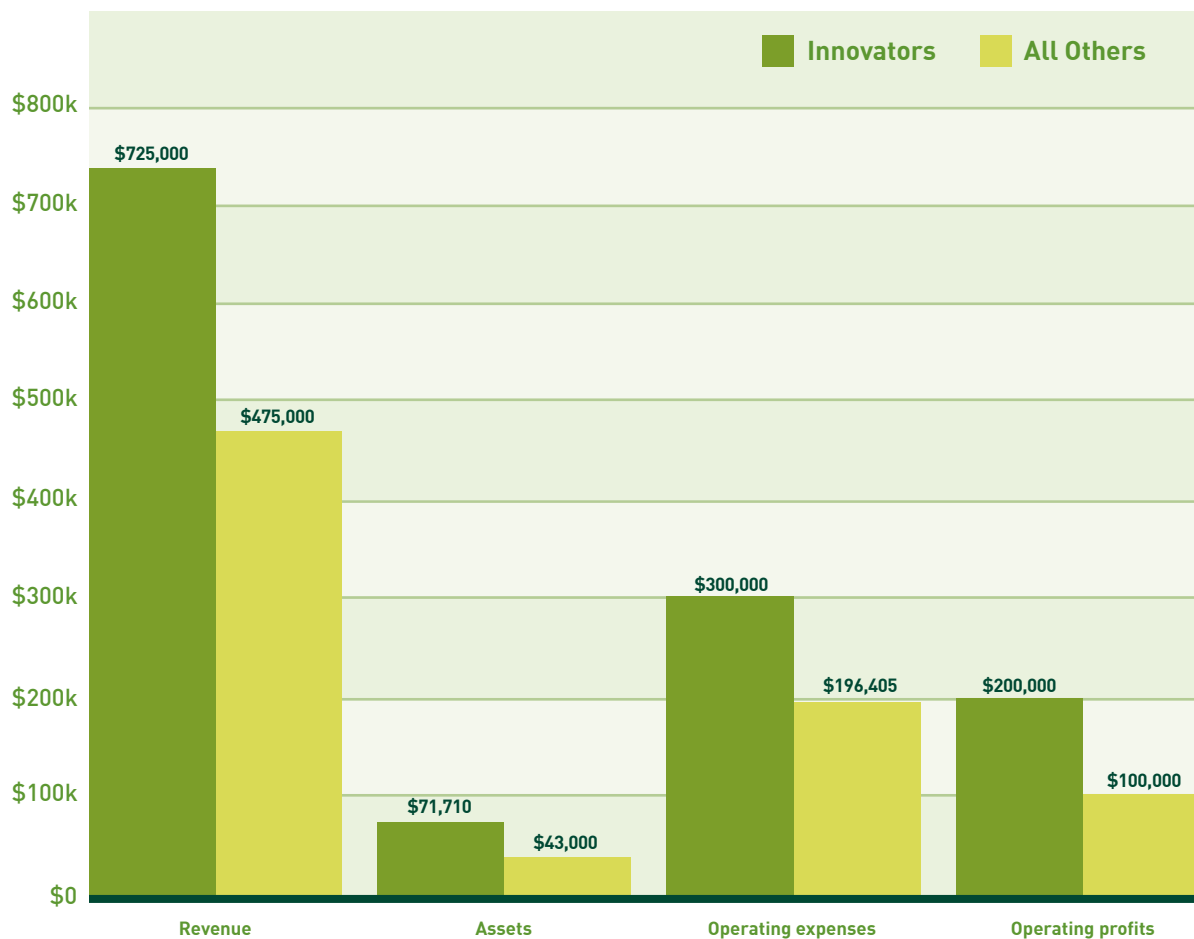
To transform their back offices, top-tier firms are leveraging the many benefits of ECM software. From simplified document retrieval to automated business processes, ECM helps RIAs achieve higher revenues without requiring additional staff.

While saving RIAs time and money, ECM also helps them prepare for audits. Advisors can focus on client service knowing their information is centrally stored and ready for auditors at any time. ECM removes the headache of compliance while keeping expenses low.

By investing in ECM technology, RIAs become more profitable, productive and prepared for whoever knocks on their door—whether that person is a client or an auditor.

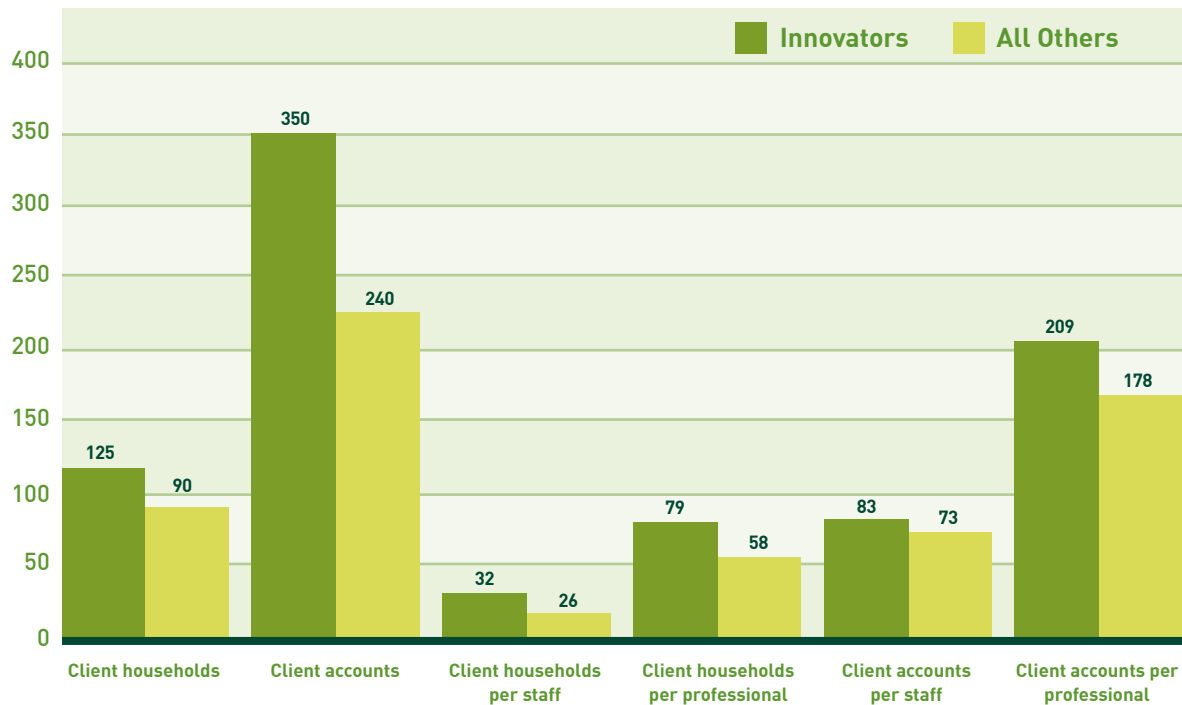


## Innovators: 2012 Financials



	Innovators		All Others	
	Median	Average	Median	Average
<b>Annual operating revenue</b>				
12/31/2011	\$640,000	\$873,088	\$450,000	\$814,932
Estimated for 12/31/2012	\$725,000	\$984,087	\$475,000	\$966,801
<b>Annual operating expense</b>				
12/31/2011	\$300,000	\$453,166	\$180,000	\$517,037
Estimated for 12/31/2012	\$300,000	\$502,109	\$196,405	\$583,450
<b>Total assets, both under management and under advisory</b>				
12/31/2011	\$63,472,900	\$149,176,441	\$36,511,711	\$155,774,229
Estimated for 12/31/2012	\$71,710,000	\$168,990,203	\$43,000,000	\$247,930,264
<b>Operating Performance Metrics</b>				
Operating profit	\$200,000	\$322,554	\$100,000	\$248,779
Operating margin	53%	49%	48%	43%

## Innovators: Structure and Support Metrics



Innovators				All Others			
12/31/2011		Estimated for 12/31/2012		12/31/2011		Estimated for 12/31/2012	
Median	Average	Median	Average	Median	Average	Median	Average

To approximately how many client households and client accounts has your practice provided financial planning/advisory services?

Client households	125	206	140	222	90	482	108	510
Client accounts	350	623	360	747	240	1,138	273	1,206

### Staffing

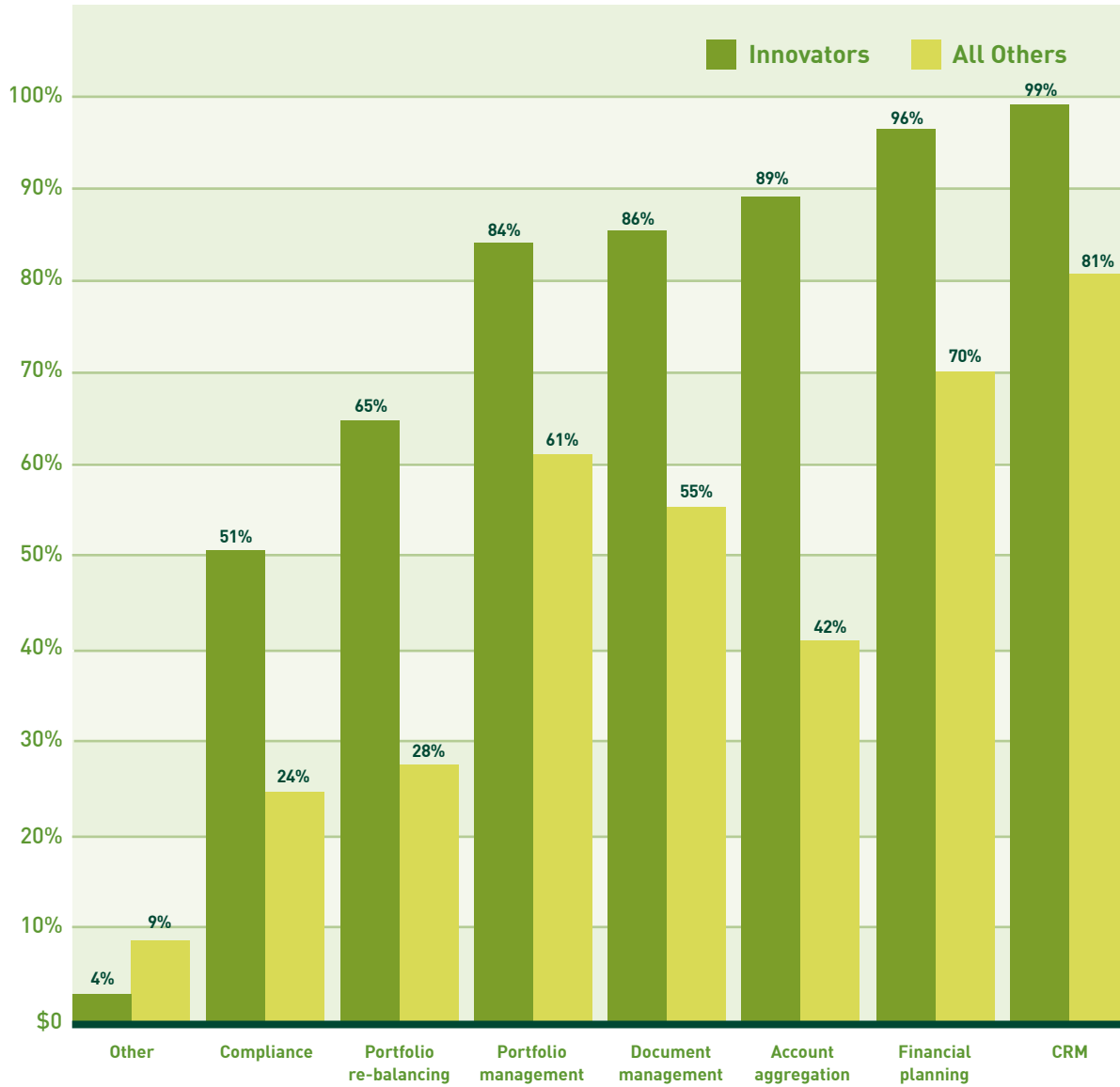
Client households per staff	-	-	32	39	-	-	26	45
Client households per professional	-	-	79	107	-	-	58	104
Client accounts per staff	-	-	83	109	-	-	73	119
Client accounts per professional	-	-	209	304	-	-	178	292

Innovators		All Others	
Median	Average	Median	Average

### Staff Financial Performance Ratios

Revenue per staff	\$120,000	\$128,093	\$102,143	\$121,179
Revenue per professional	\$258,333	\$364,057	\$240,000	\$292,861
Assets per staff	\$12,222,222	\$16,708,642	\$10,000,000	\$18,631,132
Assets per professional	\$25,833,333	\$47,387,769	\$20,000,000	\$48,866,701
Profit per staff	\$51,923	\$64,559	\$36,509	\$58,011
Profit per professional	\$127,500	\$165,668	\$80,000	\$124,895

### Innovators: Top Tech Used



## Innovators: Firm Growth

	Innovators		All Others	
	Median	Average	Median	Average
<b>Which of the following would best foster growth at your firm within the next 3-5 years? (1=best and 6=worst)</b>				
Hiring	4.0	3.8	5.0	4.2
Marketing	2.0	2.5	2.0	2.6
Technology	4.0	3.9	4.0	3.8
Improving client relationships	2.0	2.5	2.0	2.7
Increasing technical competency	5.0	4.9	5.0	4.4
Optimizing practice management	3.0	3.5	3.0	3.3
<b>Which software types do you use?</b>				
Account aggregation	-	89%	-	42%
Compliance	-	51%	-	24%
CRM	-	99%	-	81%
Document management	-	86%	-	55%
Financial planning	-	96%	-	70%
Portfolio management	-	84%	-	61%
Portfolio rebalancing	-	65%	-	28%
Other	-	4%	-	9%
<b>Technology Performance Ratio</b>				
Number of software solutions used	6	6	4	4
Number of integrated solutions	5	5	3	3

	Innovators					All Others				
	Strongly agree	Agree	Indifferent	Disagree	Strongly disagree	Strongly agree	Agree	Indifferent	Disagree	Strongly disagree
<b>Please indicate how much you agree or disagree with the following statements.</b>										
Using this software has increased the overall efficiency of my business.	61%	39%	0%	0%	0%	51%	37%	10%	2%	0%
I have not seen an increase in scalability (i.e., the ability to serve a large number of clients) as a result of using this software.	4%	4%	9%	53%	30%	4%	14%	25%	35%	22%
In general, my clients are more satisfied with the quality of service and accessibility of information with the use of this software.	23%	61%	14%	3%	0%	16%	42%	34%	6%	2%
This software has not improved my practice's ability to generate revenue.	4%	3%	8%	57%	28%	3%	13%	23%	41%	20%

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