ROI for RIAs:

The bottom-line impact of enterprise content management
for independent registered investment advisors

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Introduction

Technology is not just another expense item detracting from take-home pay and profit distributions. For top-performing Registered Investment Advisors (RIAs), it's viewed as a long-term investment that generates growth and higher profitability.

This paper explores how leading RIAs have leveraged enterprise content management (ECM) to simplify regulatory compliance, improve profitability and limit exposure to civil and criminal liability—all while accelerating business processes and making staff more efficient. Developed in partnership with Nexus Strategy, LLC, a leading consulting firm to the RIA industry, this report focuses on industry benchmarks and real-life examples that outline the real cost savings of ECM technology.

ROI: The Bottom Line

With an investment in enterprise content management technology, RIAs can save anywhere from $48,000 a year in annual operational costs for a small firm to upwards of $360,000 for a large firm. This increase in profitability can result in an increased business valuation of $242,000 for a small firm or $3,616,000 for a large firm.

Key Areas of Impact on Return on Investment

As many independent RIA firms have grown, their costs and infrastructures have grown right along with them. The highly regulated nature of the financial services industry creates a significant amount of paper during the normal course of business; yet, firms often overlook the infrastructure cost necessary to organize, store and retrieve paper documents.

We have found, however, that leading firms embrace ECM as a critical business tool that provides five major advantages:

- Reduced paper storage costs.
- Automation of back-office processes.
- Integration with CRM software for increased productivity.
- Simplified compliance.
- Increased business valuation.

Using an industry-accepted income statement approach, along with corresponding benchmarks of financial performance for emerging, established and enterprise firms, this paper will identify, calculate and detail the return on investment for ECM.

Table 1 – Summary of Staff and Cost Savings by Firm Size

Size of Firm	Emerging ($500,000 in annual revenue)	Established ($1,000,000 in annual revenue)	Enterprise ($4,000,000 in annual revenue)
Technology Investment	1.4% of revenues ($7,000)	2% of revenues ($20,000)	1% of revenues ($40,000)
Staff Savings	1000 hours (0.4 of a full-time employee)	1500 hours (0.6 of a full-time employee)	11,000 hours (4.4 full-time employees)
Overhead Savings	9.7% of revenues ($48,000)	9.2% of revenues ($92,000)	9.0% of revenues ($362,000)
Profit Increase	125.6%	74.8%	64.1%
Business Value Increase	$242,000	$644,000	$3,616,000

(Please refer to the appendix for the full analysis for each size firm.)

A Note on Methodology

Because independent RIA firms vary widely in terms of their size, style, lifecycle, geographic location and business models, our analysis is categorized in terms of emerging, established and enterprise advisory firms:

- **Emerging advisory firms:**
  $500,000 - $999,999 in annual revenues
- **Established advisory firms:**
  $1,000,000 - $3,999,999 in annual revenues
- **Enterprise advisory firms:**
  $4,000,000 or more in annual revenues

For RIA firms that may not have yet reached $500,000 in annual revenues, ECM can be a significant factor for increasing their revenue, attracting new clients, adding more staff and reaching higher levels of productivity and efficiency.

Growing firms reach stages where they must invest in further infrastructure and staffing. While these investments initially create inefficiencies, they are necessary for increased growth, efficiency and profitability. We have selected the emerging, established and enterprise revenue thresholds as they represent the economies of scale for a majority of firm sizes and life cycles.

To calculate savings and return on investment, we applied the same rigorous business process approach as most independent RIA firms by adding additional costs for technology investment to sample income statements.

We developed average income statement profiles for emerging, established and enterprise firms by aggregating benchmark data from recent industry studies prepared **by Nexus Strategy**, **LLC, Moss Adams LLP and the 2011 Investment News RIA Technology Study.** Additional analysis, based on Laserfiche's 25-year history and experience with over 30,000 installations worldwide, is used to conservatively approximate the space savings of reduced physical storage as well as the reduction in operational and administrative time through efficiency gains realized with ECM.

Technology: A Key Differentiator in Tough Economic Times

Since this report was initially published at the top of the market in 2007, costs for advisors as a percentage of revenue went up 12% for emerging firms, 4% for established firms and 6% for enterprise firms.

Revenues are down from the market declines and the overall cost of bringing in new staff is up, so on a percentage basis advisors' profitability has been hit.

The leverage from technology has a bigger impact in tougher times. Technology ROI as a percentage of overhead has increased since 2007, with an income increase of:

- $5,000 for emerging firms.
- $3,000 for established firms.
- $20,000 for enterprise firms.

Business value increases are $5,000 for emerging firms; $18,000 for established firms; and $195,000 for enterprise firms.

Reduced Storage Costs

One of the most visible benefits of ECM technology is a reduced need for physical storage space for paper files. Once a firm fully deploys an ECM system, it decreases its storage by eliminating the need for filing cabinets. Firms can then move into smaller offices or eliminate the need for additional space as they add more revenue-generating advisors.

On average, 6% of revenue for emerging and established firms and 5% of revenue for enterprise firms is generally spent on rent costs. Laserfiche analysis shows the economies of scale produced by space reduction based on firm size. Annual savings in rent costs equate to:

- $8,000 for emerging firms (25% of total rent costs).
- $18,000 for established firms (30% of total rent costs).
- $27,000 for enterprise firms (35% of total rent costs).

Table 2 – Rent Savings as a Percentage of Revenues

Size of Firm	Emerging	Established	Enterprise
Rent Costs	6% ($30,000)	6% ($60,000)	5% ($85,000)
Savings	1.5% ($8,000)	1.8% ($18,000)	1.0% ($27,000)

> In terms of scaling on existing infrastructure, back office efficiencies and lack of storage, we're saving tens of thousands of dollars per month.
>
> **JC Abusaid**, Chief Operating Officer
> Halbert Hargrove Investment Counsel

Automation of Back-Office Processes

Among the most dramatic results of an ECM system are the substantial and measurable time savings and efficiency improvements, allowing firms to provide better client service. Digital search and retrieval enables staff to locate critical information in seconds and eliminates lost files, decreasing the labor and time costs associated with getting new client signatures and recreating files.

However, the benefits of ECM go far beyond search and retrieval. Forward-thinking advisors use ECM to:

- **Automate document retention and destruction**, simplifying recordkeeping and decreasing the amount of work involved in responding to complex regulations. With an ECM system that encompasses records management, advisors can easily apply consistent policies to records in a variety of media, from Web content and archived e-mails to scanned images and spreadsheets. ECM eliminates the need to manually catalogue, organize and tag this content by automatically performing these tasks. In the face of increased regulatory complexity, automation trumps manual processing every time.

- **Identify and classify documents without manual processing.** Leading ECM systems include high-volume capture tools that enable batch scanning and document processing, optimizing resources and improving processing speed. Capture tools automatically pull relevant information from large batches of unsorted documents, preventing costly errors and operational bottlenecks, and then use that information to categorize and organize unstructured data. For example, one firm uses ECM to quickly and accurately process more than 50,000 pages of account statements each month.

- **Quickly prove adherence to regulatory requirements.** When firms automate the disclosure process with the business process management tools included in leading ECM systems, it ensures that advisors cannot progress from one step of the process to the next without meeting specified rules or conditions. For example, a firm can set up its ECM system so that if an advisor does not file a client's disclosure paperwork in the system, the advisor will not be able to select that client's investment products, ensuring compliance.

- **Automatically route information for review and approval.** Forward-thinking firms use ECM to save time and energy by automating business processes. When reps at one firm, for example, scan client correspondence into the ECM system, it is automatically sent to the Chief Compliance Officer for review, speeding up the approval process. Other firms use ECM to automate:

  - New account processing.
  - Suitability approval.
  - Exception handling.
  - Check log creation/review.
  - HR onboarding.
  - Contract management.
  - Accounts payable processing.

In addition, financial advisors benefit from ECM systems that combine the flexibility of mobile devices with the security, manageability and auditability of centralized control. Tech-savvy RIA firms look for ECM systems that enable advisors to use mobile devices to securely:

- Access document images, text and metadata.
- Upload content to the repository from mobile devices.
- Search for stored content by field, entry name or full-text search.
- Take photos and apply advanced image processing features.
- Trigger, and participate in, workflows.

For example, some advisors are using ECM in conjunction with smartphones, iPhones and iPads to meet clients offsite, initiate client agreements, store them in the firms' secure content repository and have them automatically routed to the appropriate managers for review and approval.

Based on hundreds of installations and associated experience with investment advisors worldwide, Laserfiche conservatively estimates that the savings from back-office efficiencies equate to a 20% savings in staff time. (Although scanning and setting up automated workflows creates new work for administrative and IT staff, these tasks have been included as part of the net efficiencies accrued in operational staff time.)

For advisory firms, salaries and associated expenses for back-office staff represents 24% of revenue for emerging firms, 27% of revenue for established firms and 23% of revenue for enterprise firms. Ultimately, emerging firms realize a 4.8% reduction in total overhead costs, established firms realize a 5.4% reduction in overhead costs and enterprise firms realize a 4.6% reduction in overhead costs for a large firm.

> "We get our statements processed and viewable in Laserfiche in less time than it used to take to sort the paper before. It used to take up to three days with our old information management system, now they're in the database and the information's in use the same day it arrives."
>
> **Mike Adams** ,Director of Information Technology
> Cambridge Financial Group

Table 3 – Back-Office Savings as a Percent of Revenues

Size of Firm	Emerging	Established	Enterprise
Back-office Staff Costs as a Percentage of Annual Revenue	24% ($120,000)	27% ($270,000)	23% ($920,000)
Efficiency Savings (annual)	4.8% ($24,000)	5.4% ($54,000)	4.6% ($184,000)

Integration with CRM Software

Managing multiple applications detracts from the time advisors spend on profitable activities. Advisory firms across the country have integrated ECM with CRM, portfolio management and practice management systems, saving time and effort.

In fact, the 2011 Investment News RIA Technology Study revealed that RIAs who integrate CRM with ECM reap higher rewards from their technology spend. Forward-thinking advisors look for ECM systems that provide out-of-the-box ECM integrations with popular CRM, practice management and portfolio management systems like Junxure, Salesforce.com, Tamarac, Microsoft CRM, Redtail and ACT!

ECM built with an open architecture is designed for integration and interoperability, allowing RIAs to easily access documents through their CRM systems, providing information on demand, as well as eliminating the need to learn a new software system.

The ECM Life Cycle: Rehmann Financial's Eye on Integration

As Rehmann Financial merged with small firms, resulting in 100 staff members spread across 13 offices in two states, it needed to streamline its "clunky" compliance business processes. A two-way integration between the firm's Junxure CRM system and Laserfiche ECM streamlined document routing for faster approval of correspondence and checks:

1. A pre-established action sequence sets up a new client record in Junxure.
2. Laserfiche automatically creates a file structure.
3. New client agreement is scanned into and template in Laserfiche.
4. Laserfiche Workflow automatically routes the client agreement to compliance officer for review and approval.
5. Compliance officer electronically signs agreement.
6. Laserfiche Workflow automatically routes the document back to staff for printing and mailing.
7. At the same time, Laserfiche automatically files it into the client folder.
8. With one click, the final copy of the agreement is accessible from the client record in Junxure.

Forms that once spent weeks in the mail or sitting on a desk now are processed automatically, shaving minutes from check processing and days off audit time.

"The link between Junxure and Laserfiche is seamless, which is what makes it so valuable. It's simple enough that it doesn't overwhelm our advisors, but complex enough to do everything we need," said Amy Flourry, Operations Manager.

Simplified Compliance

As the regulatory landscape continues to evolve and change, RIA firms are reporting that keeping up with the latest rules and regulations is taking more of their energy, time and focus.

ECM has many key compliance benefits, including:

- Enhanced security.
- Improved disaster recovery/business continuity planning.
- Efficient audit preparation.

By the Numbers

A recent study by JD Power and Associates[1] found that aligning technology with daily workflow constitutes a best practice that results in the most satisfied advisors. Firms that rely on completely integrated software programs and adjust workloads so that compliance-related tasks only constitute 15 percent or less of a typical week benefitted from higher levels of advisor satisfaction.

Enhanced Security

An ECM system should accommodate user-based security, protecting entire folders (such as human resources or tax information), subfolders (such as client tax information) or individual documents.

Software features including access rights, passwords and central storage enhance security, particularly for larger firms with multiple offices. White-out or black-out redactions can protect extremely sensitive information from unauthorized users. All these security features are simply unavailable with paper-based systems and are a key benefit of ECM technology.

Disaster Recovery/Business Continuity Planning

Digital archiving eases compliance by simplifying disaster preparation and recovery and assuring the long-term accessibility of critical information in the event of significant business disruptions or natural disasters.

Simple and efficient DVD/Blu-ray back-up procedures assure data back-up and recovery while making it simple to maintain client information outside of the office, in accordance with SEC Rule 17a-4. ECM protects paper's vulnerability to fire, flood, natural disasters and theft and eliminates the expensive, time-consuming process of duplicating paper documents for storage. Instead of the expense of photocopying, transporting and storing paper backup archives, entire document repositories can be securely stored offsite on DVDs or Blu-ray disks.

1 J.D. Power and Associates 2010 Financial Advisor Satisfaction Study(SM)

Audits

Many advisors dread bi-annual SEC audits, and especially fear surprise audits. With ECM, the ability to quickly search and retrieve documents by client, date, type, advisor, product or any other necessary piece of information streamlines data gathering.

- Firm staff no longer spend days pulling files to get them ready for auditors.
- Staff can burn documents to a DVD or Blu-ray and can deliver it to the auditors in less than one business day. Advisors themselves can also quickly pull up the requested documents.
- Auditors can access a workstation in an advisor's office and search directly for the documents they need during an examination instead sequestering a firm's conference room.
- Specific limited-access login ID's for auditors restrict access only to requested files, protecting sensitive documents, such as those with attorney-client privilege.

Overall Time Savings

The impact of compliance efficiencies in reducing total overhead costs is substantial and can be quantified in terms of time savings. Using the data from the JD Power study, we can document the cost of advisor time spent on compliance as an hourly figure and compare it to firms with efficient compliance systems to calculate the savings.

Emerging firms realize $37,000 in annual savings, while an enterprise firm realizes $158,000 in annual savings.

Table 4 – Compliance Time Savings as a Percent of Revenues

Size of Firm	Emerging	Established	Enterprise
Compliance Costs	8.6% ($43,000)	7.2% ($72,000)	8.0% ($320,000)
Efficiency Savings	4.8% ($24,000)	4.0% ($40,000)	4.4% ($178,000)

Increased Business Valuation

Many industry experts now view multiples of cash flow as the best model for valuing an independent RIA firm. Valuing an advisory firm by its profitability and cash flow highlights ways an advisor can maximize that value by understanding the key drivers of business value. Higher multiples for business valuation can result in hundreds of thousands to even millions of dollars in increased value realized during ownership transitions.

Efficient ECM infrastructure leads to:

- Increased profitability
- Reduced risk
- Enhanced compliance procedures

A firm with a systematized, efficient infrastructure is more highly valued due to lower operational and investment and higher profitability. The dramatic impact on business value becomes clear when applying these concepts to the return on investment for a technology implementation like an ECM system.

Research and data from industry experts Moss Adams, LLP, and Succession Planning Consultants show that independent RIA firms are typically valued on average between five to twelve times operating cash flows (EBITDA), depending on firm size, economies of scale, infrastructure, systematized business models and geographic location.

However, one consistent aspect is that larger firms receive higher multiples due to their lower risk profiles, higher profitability and economies of scale.

A conservative estimate for the multiples of cash flow determined the increased business value for the examples of small (5 times cash flow), medium (7 times cash flow) and large firms (10 times cash flow). Based on the income statement approach, the dramatic increase in business value is seen with the efficiency and profitability realized through ECM savings.

Back-office savings through ECM tools correlated with an increase in both profitability and business value, with larger firms realizing the greatest gain:

- Emerging firms saw an increase in profitability of $48,000 and an increased business value of $242,000.
- Established firms increased in profitability by $92,000 and their business value by $646,000.
- Enterprise firms improved profitability by $362,000 for a business value increase of $3,616,000.

Table 5 – Increased Business Value

Size of Firm	Emerging	Established	Enterprise
Multiple on Cash Flow	5	7	10
Increased Net Income	$48,000	$92,000	$362,000
Net Value Increase	$216,000	$644,000	$3,616,000

Conclusion

By using ECM to eliminate paper files and automate business processes, RIA firms achieve higher revenues, increased efficiency and greater business value no matter their size.

Back-office efficiencies accrue as ECM simplifies document capture, enables mobile access to the repository and automates manual processes. Furthermore, integration with existing CRM software unites multiple applications and allows RIAs to easily access documents through familiar CRM systems. These time and cost savings translate into better, faster client service.

ECM improves compliance efficiencies while reducing the time RIA firms spend handling audits. Electronic storage mitigates potential disaster threats. Instant accessibility, centralized storage and security controls give auditors direct access to documents and ensure document security without sacrificing staff time.

By leveraging best-in-class ECM technology, RIAs can make a powerful improvement in current income today as well as in long-term business value tomorrow. Higher revenues, increased efficiency decreased compliance risk and greater business value are all within your grasp—all you have to do is take the initiative to make it a reality for your firm.

Appendix

	Emerging			Established			Enterprise		
	Pre	Post	ROI	Pre	Post	ROI	Pre	Post	ROI
Revenues	$500 100%	$500 100%		$1,000 100%	$1,000 100%		$4,000 100%	$4,000 100%	
Direct Expenses	$230 45.9%	$230 45.9%		$385 38.5%	$385 38.5%		$1,708 42.7%	$1,708 42.7%	
Gross Profit	$271 54.1%	$271 54.1%		$615 61.5%	$615 61.5%		$2,292 57.3%	$2,292 57.3%	
Overhead	$232 46.4%	$184 36.7%	4.7%	$492 49.2%	$400 40%	9.2%	$1,728 43.2%	$1,366 34.2%	9%
Operating Profit	$39 7.7%	$87 17.4%	48%	$123 12.3%	$215 21.5%	92%	$564 14.1%	$926 23.1%	3.62%
NET OVERHEAD REDUCTION Efficiency Savings minus Technology Investment		$48	9.7%	$92		9.2%		362	9%
PERCENT PROFIT INCREASE			125.6%			74.8%			64.1%
Multiple on Operating Profit (EBITDA) for Valuation puposes	5			7			10		
Firm Value	$193	$434	$242	$861	$1,505	$644	$5,640	$9,256	$3,616

Assumptions / Benchmarks

Clients	73	172	467
Total Staff	3	5	33
Advisors	1	2	11
Back Office	2	3	22

Staff Man-Hour Analysis

Total back office hours capacity (2500 hours per year per back office staff, 50 hours per week per 50 weeks)	5000	7500	55,000
20% savings of time for filing, retrieving, mis-filing, workflow efficiencies (estimate based on Laserfiche analysis)	1000	1500	11,000
Back office Staff	0.40	0.60	4.4

Direct expenses are defined as total compensation (salaries and bonuses) for professional staff involved in client service or business development and do not include profit sharing.

Overhead expenses are defined as all other expenses associated with managing and operating the firm, including rent, compliance, admin and operational staff and other expenses.

Source Nexus Strategy, LLC, Schwab Institutional, Moss Adams, Succession Planning Consultants.

	Emerging		Established		Enterprise	
	$ Thousands	**% of Revenue**	**$ Thousands**	**% of Revenue**	**$ Thousands**	**% of Revenue**
Technology Costs Increase						
Implementation, maintenance, training and ongoing costs associated with document management system (source Laserfiche)	$7	1.4%	$20	2%	$40	1%
Back Office Efficiencies						
back office staff = 24% of revenue for emerging firms, 27% for established firms, 23% for enterprise firms (from benchmarking data)	$120	24%	$270	27%	$920	23%
Cost savings for filing, retrieving mis-filing, workflow efficiencies = 20% of back-office staff time (estimate based on Laserfiche analysis)	$24	4.8%	$54	5.4%	$184	4.6%
Space Efficiencies						
Rent = 6% of revenues for emerging and established firms, 5% for enterprise firms (from benchmarking data)	$30	6%	$60	6%	$85	5%
Reduction in space needs by eliminating filing cabinet storage is 25% in emerging firms, 30% in established firms and 35% in enterprise firms (estimate based on Laserfiche analysis)	$8	1.5%	$18	1.8%	$27	1%
Compliance Efficiencies						
Cost of compliance (hours* advisor hourly rate)	$43	8.6%	$72	7.2%	$320	8%
Reduction in compliance costs to 5 hours per week per advisor	$24	4.8%	$40	4%	$178	4.4%

The Laserfiche Institute teaches staff, resellers, and current and prospective clients how to use Laserfiche most effectively. As part of this mission, the Institute conducts more than 500 Webinars each year, covering a variety of topics. The Institute also hosts an annual conference where members of the Laserfiche community attend presentations and network to share ideas and learn best practices. Additionally, the Institute conducts a number of regional training sessions and provides resellers with content for more than 100 user conferences each year.

The Institute also develops and distributes educational material through the Laserfiche Support Site. On this Website, clients can access training videos, participate in online forums and download technical papers and presentations that help them become savvier ECM users.

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