
The Outer Limits of Outsourcing

By David Lindorff Tue, Jan 10, 2012

Advisors can't do everything themselves. But they need to be careful in choosing what to hand off to a software tool, a vendor or an assistant.

Outsourcing has gone to almost absurd extremes. Call centers in Asia are commonplace. Indian legal firms now handle boilerplate work for many American firms. Automation itself is a way of outsourcing a task—from people to software or machinery.

Financial advisors, though not always tech-savvy, were early-adopters of outsourcing. The very act of using mutual funds is a form of outsourcing, with the portfolio manager picking securities and the advisor just picking the fund.

But can you outsource too much? Should you outsource payroll and benefits? Sure. Hiring and firing? Perhaps. The creation of customized retirement income plans for key clients? Not so fast. Outsourcing may be necessary for growth; but it can turn into a necessary evil if you start outsourcing core competencies.

"You have to start by asking what your clients really value having you do personally, and what things they wouldn't care who was doing it," said Rick Miller, founder of Sensible Financial Planning of Waltham, Mass., a four-member firm with 200 clients and about \$225 million under management.

"Most clients probably are not concerned about who enters the data about their transactions, as long as it's done accurately. But they probably all do care that you know about it and can apply that data to their circumstances." He advised, "As for those things you're not good at, peel them away as fast as you can!"

Miller's firm uses [Tamarac](#) rebalancing software. It has taken a process that used to require 20-30 minutes per client and sped it up to 20 clients or more per day, he said. He's also automated or outsourced portfolio accounting, payables, payroll and tech support.

"Each became obvious to me. I was sort of dragged or pushed into them," laughed Miller. "But we don't outsource date entry for new clients. That's sort of integral to our interview process."

Miller is beginning to use software to automate retirement income planning using [ESPlanner](#), the tool created by economist and author Laurence Kotlikoff of Boston University. But he stressed, "The output is not ES Planner output. We put it in our proprietary format. That's crucial because an important part of what we do is make things clear for the client."

[Deena Katz](#), a professor of personal financial planning at Texas Tech University, says, "Outsourcing is the best way to enlarge your operation. But to do it, you need to figure out what your own highest and best use is. Then figure out what you can get rid of—including the sacred cows." She adds, "In the old days it was felt that you should do everything yourself, because of course you can do it better than anybody else. But it's not true. Most financial advisors I've known, for example, are not good business managers, and should

hire one.”

“Start with your back office. Get rid of everything,” Katz suggested. “You don’t need all that hardware. Put everything in the cloud. There’s no reason to store information in-house anymore. And don’t worry about security. If Bank of America can’t keep its data secure, neither can you.”

“It’s all about leveraging,” she added. “If a task is too expensive for your office to handle in-house with a staff person, outsource it and standardize it. “

“A lot of outsourcing is driven by the size of the firm,” said Mark Cortazzo, senior partner at [MACRO Consulting Group](#) in Parsippany, NJ. His firm manages 40-50 model portfolios on a flat-fee basis, and specializes in the wealth distribution phase of retirement planning. “We’ve come full circle here. I started out licking every stamp myself, and ended up outsourcing a lot. Now we’re big enough to bring some things back in-house.”

He explained: “If you’re a one or two-member firm in growth mode, you’re spending a lot of your time prospecting clients. In that case, I’d have performance reporting and asset management outsourced. When you get larger, you can outsource your human resources by using employee leasing. That is, you do the hiring and firing but have an outsourced firm handle all the benefits and healthcare. As you become even larger, these things become cost-prohibitive, so you may want to bring that back in house.”

MACRO Consulting now has a staff of 23. “We have a company that does downloading and reconciliation for us, which allows us to focus on our clients,” Cortazzo said. “The one thing you can’t outsource is the client relationship management piece.”

“There’s not too much you can’t outsource,” he added. “If I had 100 employees, I’d also outsource performance reporting. That’s not an area that wins you new clients, but it can lose you clients if you get it wrong! And asset management. We did outsource it for a while, because asset management is expensive. Now we do it in-house, but we still outsource hedge fund portfolios and asset areas we aren’t good at.”

Can outsourcing and automation be taken all the way? Could advisors outsource so much that they don’t need to be there at all?

“Things break down when financial planners don’t really understand their own automation process,” says Phil Lubinski, a partner in First Financial Strategies in Denver, a firm with eight partners and \$250 million under management.

“A lot of financial planners don’t know how to match the presentation with the results they got from their automated system. And there’s no mandate or required training for understanding how the retirement income planning automation works,” he said.

“There’s the same danger with outsourcing. You should outsource, but you have to understand those things you’re outsourcing. Take asset management. I outsource all of mine, because I’m not a money manager, and if I were to try to do it, I couldn’t deal with my clients,” he added.

“Now, there are some financial advisors who say they’re good at it, and that it’s a value-added service for their clients. But I can tell you that those advisors in the Denver area here who didn’t outsource asset management really capped their business. In recent years, managing assets has been so time-consuming for them that they couldn’t do much of anything else.”

Deena Katz agreed that the advisor must remain on top of things. “What you don’t want to do in outsourcing and automating is to lose control,” she warned. For example, “A lot of software today has built-in asset allocation,” she said. “If you don’t know how that works, you should just not use it. Because as soon as something gets out of control, and you can’t explain what happened to a client, you can get yourself in trouble.”

“Same thing with outsourcing,” she added. “Say you outsource your human resources. You’d better know what the outsource company’s standards are. For example, we have people who call us here at Texas Tech and say, ‘I need a kid.’ I tell them, ‘Don’t outsource that decision to me. You need to decide for yourself whom you want to hire.’”

Despite the limits of outsourcing, many advisors err on the side of being too hesitant to outsource—either out of fear or out of failure to recognize their own limitations. “People tend to be afraid to let go,” Katz said. “And they sometimes pretend to a level of knowledge that they simply don’t have.”

© 2012 RIJ Publishing LLC. All rights reserved.