PART TWO: THREE WAYS TO OUTSOURCE YOUR TECHNOLOGY

More than ever, RIAs are recognizing the value of outsourcing their technology to third-party providers. Part One of this series highlighted some key advantages of outsourcing that help advisors build stronger, more successful businesses—including the ability to deliver better client service and potentially lower operational costs. And it stressed the importance of understanding your IT demands and uncovering the costs of running your own IT infrastructure to help you decide whether outsourcing is the right path.

But what exactly does technology outsourcing mean for advisors? The fact is, outsourcing is not a single, monolithic strategy. Indeed, there are multiple approaches to outsourcing that advisors can take, depending on their needs and goals—some that seek to outsource one or two discrete functions and others that are more comprehensive. What's more, the ideal approach to outsourcing often changes over time as advisors grow and expand.

Three Ways to Outsource Technology

The message is clear: If you're considering outsourcing technology, you need to know the lay of the land so you can decide how best to proceed. With that in mind, here's an overview of three of the most common outsourcing models.

1. Operational outsourcing. Advisors using operational outsourcing solutions use outside personnel to process their data while keeping some or all of the actual technology infrastructure—servers, software, and other systems—in their own offices. These providers work as an extension of the advisor's office. For example, in RIA practices, it is common to have someone "run" the portfolio management system. Advisors might choose to house that system in their own offices but prefer to contract with a service provider or consultant to manage the data on it. Every day, that provider remotely accesses the portfolio management system to download data from the custodian, post and reconcile the data, and manage corporate action processing. In addition, the provider might handle the production of quarterly reports and billing.

2. Infrastructure outsourcing. Infrastructure outsourcing eliminates the need to install and maintain servers, software, and other physical technology within an RIA office. Instead, that technology infrastructure—which might include the portfolio management system, CRM system, or trading and rebalancing software—is located off site, where it is hosted, maintained, and upgraded by an outside provider. "Virtual desktops," "cloud computing," "software as a service (SaaS)," and "platform as a service (PaaS)" are common types of infrastructure outsourcing. Advisors and staff simply use their desktop computers, laptops, tablets, or smartphones to access the technology and applications they need, on demand, from that provider. In contrast to operational outsourcing, infrastructure-based solutions typically keep the data management duties within the RIA firm itself. For example, one or more staffers in an advisory firm would be responsible for daily data downloading, reconciliation, and reporting.

3. Full outsourcing. As the name suggests, full outsourcing combines the various aspects of operational and infrastructure outsourcing into one comprehensive package. With full outsourcing, a single provider takes responsibility for all aspects of an RIA's technology needs—from hosting and maintaining the technology itself to managing the data, business processes, and operations around that technology. Some full outsourcing solutions also integrate disparate technologies so that all the systems and applications an RIA uses can communicate with each other seamlessly—thus allowing advisors to access a wealth of real-time client information instantly on one screen.

New to outsourcing? Learn the basics and overall benefits from Part One, "Why Outsource?"

Assessing Your Business

Each of these three approaches to outsourcing can help advisors spend less time dealing with technology concerns and more time on building client relationships, creating wealth management plans, and focusing on other key drivers of growth and profitability.

That said, advisors often find that one of the three models is better suited for their practices based on factors such as their strategic plans and service models. For example, advisors who don't have the staff or expertise in place to easily manage and reconcile data may be drawn to operational outsourcing. In contrast, advisors who want remote access to their data from any location might be well served by an infrastructure-focused outsourcing solution that allows them to easily call up that data on demand. And advisors who simply choose not to deal with technology duties at all—advisors starting new firms, for example—may find that a fully outsourced approach makes sense. To size up the options and how they may or may not fit with their goals, business models, and internal practices, advisors and their teams should ask themselves questions about key areas of their businesses. See the sample questions below for some ideas.

Sample Assessment Questions

Technology	• Am I looking for quick and easy access to my applications—from anywhere, at any time? • Am I good at securing my data? • Do I have the backup and contingency planning capabilities if one of my systems fails or I'm unable to access my premises?
Staffing	• Do I (or the people in my firm) add any unique value by doing certain technology-related tasks in-house? • Can I run my IT operations if my employee who currently handles the firm's technology leaves or is out sick? • Does my firm have the expertise to manage and maintain the infrastructure that will run key aspects of my operations?
Strategic Planning and Operations	• How much more time could I devote to client-facing activities or business development by outsourcing data management, technology infrastructure, or both? • Does managing my technology in-house position me for growth? • Do I gain efficiency today by running data management operations and fulfillment in-house?

The answers to these and similar questions often change over time as advisory practices evolve, and the right model of outsourcing might also change based on where a firm is in its overall life cycle. RIAs that want to test the waters might start out with operational outsourcing, for example, and later assess whether that approach is adequate. If not, they may want to expand to a more comprehensive outsourcing strategy.

Furthermore, keep in mind that while various outsourcing options can save advisors time and allow them to shift more of their resources elsewhere, they can't take technology off advisors' plates altogether. Advisors must still do due diligence on outsourcing companies they're considering, select the right providers, and monitor their work to ensure that they're delivering on their promises. For example, advisors who outsource their data management must review the data and provide help to address any discrepancies or issues. In short, outsourcing doesn't mean that advisors can take a "set it and forget it" attitude toward their technology.

In the next three articles in this series, we'll take a closer look at each of the three outsourcing models.

Finding Technology Outsourcing Providers

Considering outsourcing some or all of your technology duties? Your next step is to find high-quality outsourcing providers and start vetting them—tasks that can seem easier said than done. According to the 2012 RIA Benchmarking Study from Charles Schwab, 57% of advisors say that their No. 1 technology challenge is selecting and evaluating vendors.

With that in mind, here are three resources to help you get started:

1. Your peers. Reach out to other advisors you respect—at industry conferences and events, association meetings, expert study groups, and through similar outlets—to see which technology outsourcing providers they're using and what their experiences have been with those providers.

2. Your financial institutional partners. Ask your custodians and other institutions you work with for help, advice, and guidance. Some firms will provide listings of outsourcing providers that they recommend, as well as reviews and ratings of providers from other advisors.

3. Your current vendors. Ask your providers whether they currently work with preferred outsourcing partners. Preferred partners may offer lower rates than what they're currently offering the general public.

Key Takeaways

Outsourcing is not a single or standardized strategy. There are many approaches that advisors can take, depending on their needs and goals. Regardless of the type, advisors must perform research and use their industry peers, current vendors, and institutional partners to gain more information on their vendor options.

Schwab and its affiliates have tools and resources to help with your outsourcing needs:

- ☑ **Schwab Performance Technologies offers portfolio data management and reporting solutions to help advisors and investment managers better serve their clients. Visit schwabpt.com.**
- ☑ **Schwab Intelligent Technologies offers technology integration solutions, workflow best practices, and information on technology providers that can help advisors both manage business more efficiently and deliver exceptional client services. Visit schwabintelligenttechnologies.com.**

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