

## PART THREE: OPERATIONAL OUTSOURCING

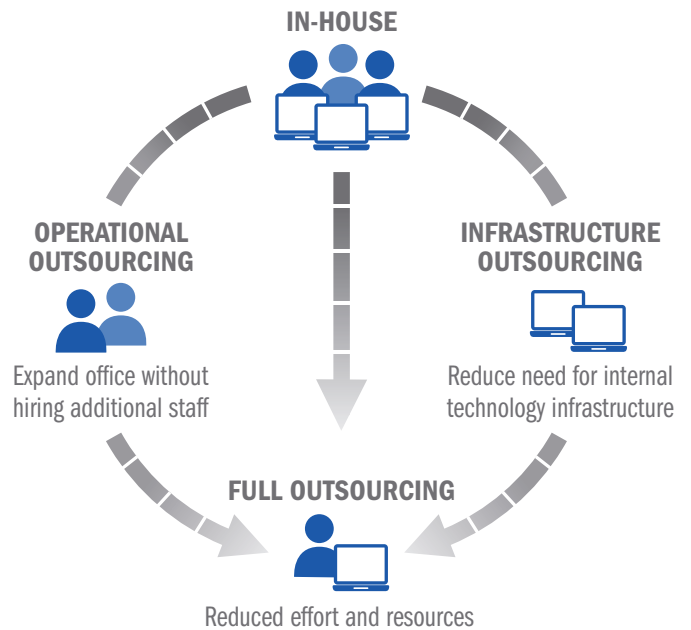
**As advisors bring technology to bear in more parts of their businesses, they're looking for ways to fully leverage that technology without losing their focus on serving clients well and generating strong growth.**

Operational outsourcing is helping many advisors accomplish those key goals. Operational outsourcing solutions enable advisors to use outside personnel to process their data while keeping some or all of their technology infrastructure—servers, software, and other systems—in their own offices.

Operational outsourcing is designed to help advisors more efficiently handle a mission-critical area of their businesses: managing the vast amounts of data that reside in their applications. Historically maintained in-house, back-office operational functions such as data management and client reporting are becoming an increasingly popular approach among advisors.

In fact, the percentage of wealth managers with \$100 million in AUM who use outsourced data management solutions rose to 34% in 2012 from 30% the previous year.<sup>1</sup>

### Your Outsourcing Options



Is running your technology infrastructure in-house time-consuming and costing you more? Read Part Four, [“Technology Infrastructure Outsourcing.”](#)

## The Benefits of Operational Outsourcing

Advisors who outsource duties such as data management and performance reporting can gain significant advantages over those who keep these tasks in-house. For example:

<p><b>Specialized Expertise</b></p>	<p>Some advisors and their staff struggle to fully leverage their data management systems and end up spending far too much time on manual processes when downloading data and creating client reports.</p> <p>In addition, hiring and training a new employee on the intricacies of RIAs' back-office functions can require significant time and money. Dedicated outsource providers that specialize in technology-related back-office operations help advisory firms maximize their use of technology.</p>
<p><b>Less Personnel Risk</b></p>	<p>It's common at many RIAs for one employee to be responsible for many of the mission-critical data management tasks. But what happens if that staffer gets sick or injured—or decides to leave the firm without warning? Hiring an operational outsourcing provider with a team of professionals can help meet the advisor's data management duties.</p> <p>Indeed, it is common that advisors' first experiences with outsourcing result from a key employee leaving or being unable to perform his or her data management duties. In such cases, operational outsourcing, which can start as a temporary fix, can become a permanent part of the practice.</p>
<p><b>Stronger Focus on Growth and Profitability</b></p>	<p>The most successful advisors are often those who focus on meeting with prospective clients and helping current clients solve their financial challenges. Outsourcing data management and reporting tasks allows advisors to reallocate staff members and other resources and dedicate roles to business development, client relationship management, financial planning, and functions that directly drive RIAs' growth and profits.</p> <p>Most importantly, operational outsourcing can turn into cost savings. Wealth managers with \$100 million in AUM in 2012 reported more than 25% average savings by outsourcing data management and client reporting.<sup>2</sup></p>
<p><b>Scale</b></p>	<p>New RIAs—such as advisors who are transitioning to the independent model from the brokerage world—may not have the prior experience or responsibility of performing back-office tasks. Now that they are starting their own practice, they may feel that they have no option but to perform these tasks themselves, but their time may in fact be better served by working with outside providers so they can get up and running faster.</p> <p>They can focus on what counts: building their business, establishing their client service model, transferring existing accounts, and winning new clients.</p>

## Making the Decision

Operational outsourcing can be a good fit for a wide variety of advisors—in particular, firms looking to spend more time with clients and prospects, firms on a heavy growth trajectory that are expanding fast, and firms needing to plan for staff changes or wanting to ensure that the team’s skills are mapped to their appropriate responsibilities. Firms new to the RIA business model looking to ramp up quickly—such as advisors in transition—should also look into operational outsourcing.

Ultimately, the decision to outsource data management can be part of a long-term strategic change a firm wants to make, or it can reflect the need for a short-term tactical adjustment. No solution is permanent—outsourcing solutions can be updated or adapted to the evolving requirements of the business as well as the industry. Indeed, advisors often enter into outsourcing initially by farming out their operational tasks, and later on opt to expand their outsourcing by leveraging infrastructure-focused or full outsourcing solutions.

### Outsourcing Checklist

Here is Schwab’s 3-point checklist to consider when taking the step toward outsourcing your data management, portfolio management, or other back-office processes:

- 1. Plan Ahead**
  - Define business goals and challenges.
  - Set out a vision for your firm **before** implementing any particular solution.
  - Ensure that you select an outsourcing approach that delivers the specific benefits you’re looking for and generates a strong ROI.
- 2. Compare Opportunity Costs**
  - Calculate the opportunity cost of spending internal resources on operational tasks instead of on client-facing, business development, or sales and marketing activities (see **Do the Math** assessment on page 4).
  - Crunch the numbers on staff time: how many employees are involved and how much time they spend each day running back-office processes, managing data, maintaining software and operating systems that run the data, and generating reports.
  - Weigh the results against the costs of hiring an outside provider to manage these tasks for you.
- 3. Understand the Caveats**
  - Evaluate each outsource offering carefully. Details vary depending on the level of service.
  - Differing levels of service come at different price points. Some limit the amount of customization in order to standardize. Others require a minimum base fee but require additional fees based on the complexity of your requirements.
  - Be willing to give up some level of control to an outside firm and be comfortable letting a third party manage processes you’re used to doing in-house.
  - Continue to maintain some level of oversight on any provider you contract with.

## Do the Math

To help decide whether operational outsourcing could save you the time and money that could be reallocated to revenue-generating activities, assess the opportunity costs of doing a critical but time-consuming part of your advisor operations—for example, managing your client portfolios and reporting on their performance.

The simple worksheet below will help reveal whether these activities are worth keeping in-house or if you gain more by using outside services. You can also apply this assessment approach to other core operational tasks that are time- and labor-intensive, such as human resources, compliance, and investment research.

<b>Portfolio Management and Performance Reporting Tasks</b>	<b>Base Cost</b> (e.g., hourly rate)	<b>No. of Hours</b> (e.g., in days or weeks)	<b>Frequency</b> (e.g., monthly = 12; quarterly = 4)	<b>Annual Expense</b> (base cost x no. of hrs. x frequency)
Recruiting qualified personnel with financial investment and accounting skills and technical background				
Cost of training new employee(s) on back-office systems and processes				
Account administration and database maintenance				
Portfolio downloading, updating, and maintenance (including manual entry on custodians that do not have download capabilities or from alternative investments)				
Corporate action processing				
Reconciliation and rebalancing				
Portfolio reporting production and distribution, including troubleshooting and cross-checking				
Billing and invoicing				
Performance analytics and planning				
<i>Add any additional tasks here</i>				
<i>Add any additional tasks here</i>				
<i>Add any additional tasks here</i>				
<b>TOTAL</b>				

## Key Takeaways

Answering a simple question—“What’s my time worth?”—will help reveal whether operational activities are worth keeping in-house or if advisors gain more by using outside services. With outsourcing, advisors can focus their time and resources on growing their business, instead of on manual data collection, reconciliation, reporting, and other operational tasks.

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](http://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](http://schwabintelligenttechnologies.com).

Contact your Schwab Advisor Services™ relationship manager to learn more about the information presented in this paper.

<sup>1</sup> 2012 Charles Schwab RIA Benchmarking Study.

<sup>2</sup> 2012 Charles Schwab RIA Benchmarking Study.

### DISCLOSURE

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This paper also references the 2012 RIA Benchmarking Study from Charles Schwab, fielded February and March 2012, which contains self-reported data from 1,025 firms. All information contained in that study is provided for general informational purposes only and is not a recommendation of any business enterprise or investment advisory practice management technique, strategy, or practice reported on or described.

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