

## PART ONE: WHY OUTSOURCE?

**Advisors today undoubtedly recognize technology’s ability to help strengthen their businesses. In fact, more than two-thirds of advisors (67%) tell Schwab that implementing technology for automation and scalability is a top enabler of their growth.<sup>1</sup>**

It’s not surprising, then, that the majority of RIAs today use technology in mission-critical areas of their practices, including portfolio management (97% of wealth managers with at least \$100 million in AUM use technology in this area), client relationship management (90%), email retention (89%), financial planning (79%), and trade order management/rebalancing (58%).<sup>2</sup>

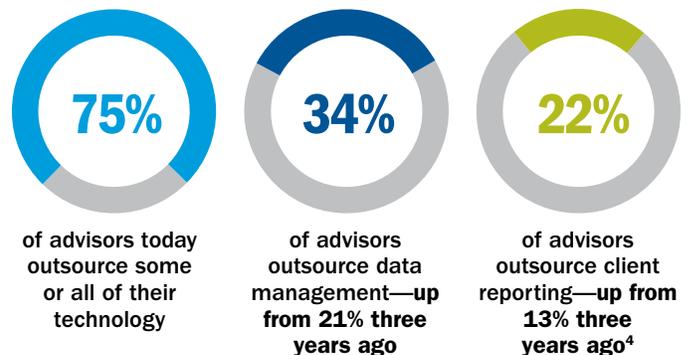
But too often, the promise of technology is equaled by the challenges it presents. Many advisors struggle with their tech initiatives and fail to fully realize the advertised benefits. Advisors are largely on their own when it comes to identifying high-quality tech vendors, choosing multiple products, implementing and customizing hardware and software, training staff, and managing upgrades and other maintenance responsibilities.

Advisors who try to handle these and other technology-related tasks themselves may end up spending too little time on those key activities that drive bottom-line success—namely, building trusted relationships with clients and attracting new ideal prospects. Consider that marketing and business development is a top barrier to growth for 70% of today’s wealth managers with at least \$100 million in AUM, while more than half (55%) say that a top barrier to growth is “devoting enough staff time to business development.”<sup>3</sup>

### Gaining Momentum

Increasingly, advisors are tackling their biggest challenges by working with outsourcers—third-party firms that implement, host, manage, and maintain advisors’ technology and technology-related tasks for them.

The Charles Schwab 2012 RIA Benchmarking Study revealed that:



Why the move toward outsourcing? Outsourcing can be a key step in enabling advisors to fully leverage their technology initiatives to drive growth, gain much-needed efficiencies, and deliver a better service experience that ultimately leads to stronger client relationships.

The challenges of the past few years have made these benefits to advisors more tangible. In the wake of the financial crisis, many advisors found themselves lacking the time, energy, and staff to devote to client service and business development. In that environment, many firms began rethinking their business practices and looking for new ways to free up their limited resources to focus on their core competencies. Additionally, there are more opportunities today to outsource technology than ever before, thanks to an ever-growing ecosystem of third-party providers that cater specifically to RIAs.

Which outsourcing solutions are right for your business? Read Part Two, **“Three Ways to Outsource,”** for an overview of outsourcing types and questions to help you evaluate and decide.

## The Benefits of Outsourcing

Advisors who outsource their technology functions report benefits such as:

<b>Cost Savings</b>	Advisors who outsource client reporting and data management report savings of roughly 25% to 30% versus managing those tasks in-house with dedicated resources. <sup>5</sup> Cost savings can also be achieved by outsourcing the management, maintenance, and updating of IT infrastructure, computer systems, and servers.
<b>Time Savings</b>	Outsourcing allows advisors to hand off the most challenging and time-consuming tech-related tasks, such as implementing new systems, maintaining and upgrading software and servers, and managing backups. Advisors and their staff can devote that extra time to client service, financial planning, business development, and other value-added activities that drive growth and profitability.
<b>Flexibility and Scale</b>	Outsourced technology solutions typically offer a range of options that advisors can add or remove as their needs and goals evolve—allowing RIA firms to quickly adjust their technology capabilities resources as they grow. It’s also easier to change or remove outsourced solutions entirely if desired than it is to overhaul in-house, customized technology.
<b>Focus on Building Trusted Relationships</b>	Most advisors aren’t die-hard techies. For example, 77% get outside help with their IT support needs. Outsourcing helps advisors focus on the tasks they do best—building, maintaining, and strengthening trusted relationships with their clients, creating financial plans, and pursuing new business opportunities.
<b>Mobility</b>	The Internet is reshaping the advisor-client relationship. Access to financial information anytime, anywhere through smartphones, tablets and other mobile devices is becoming increasingly important to advisors and their clients. Consider that 50% of U.S. advisors use a tablet, <sup>6</sup> while 25% of U.S. online adults are interested in using their mobile devices as the <i>main channel</i> for their personal financial lives. <sup>7</sup> Many outsourced solutions enable advisors and staff to call up data on demand—delivering convenience, boosting efficiency, and improving the overall client experience.
<b>Greater Financial Flexibility</b>	Outsourcing can give advisors greater flexibility over their expense models versus using an in-house, fixed-cost approach. For example, some outsource providers’ fees rise and fall with a firm’s overall AUM, while others vary based on the number of client accounts at the firm. This enables advisors to easily manage technology-related expenses and headcount in response to changing business conditions.

That said, outsourcing technology isn't a panacea. While many outsourcing solutions offer greater flexibility than in the past, there may still be trade-offs in the degree of customization an outsourced solution provides versus in-house management. Clearly, some advisors are able to successfully maintain their systems and data in-house. Others may wish to leverage outsourcing only for select technologies or stages of their business life cycle.

The key is for advisors to understand their practice's specific business model, cost structure, technology needs and goals, and then determine whether outsourcing is a good option based on those factors.

### Three Outsourcing Myths

Many concerns and objections that advisors raise about outsourcing are rooted in misconceptions. With that in mind, here's Schwab's opinion on three of the biggest outsourcing myths:

- 1. "Outsourcing technology is more expensive than doing it in-house."**

Outsourced solutions can seem surprisingly pricey at first glance. But a thorough analysis of the costs of managing technology in a RIA practice—including expenses related to recruiting and training staff, purchasing and installing hardware and software, maintaining and upgrading technology, and troubleshooting—may reveal that advisors can save significant money and resources by outsourcing and reallocating their time or staff's time to other, more value-added activities.
- 2. "Going to a third party will mean lower quality and inferior service versus doing it myself."**

Third-party providers' success depends on their ability to deliver a high-quality, consistent experience. If they didn't deliver, they wouldn't be in business long. Additionally, these firms must track their effectiveness and accuracy and share that information with customers.

What's more, the most established outsourcing firms have worked with thousands of advisors and small businesses over the years. They may have the experience to know where potential problems could crop up and prevent them from happening in the first place. And if something does go wrong, they may also have the resources to solve the problem fast.
- 3. "If my data is housed off site, I'll lose control of it and won't be able to trust that it's safe and secure."**

Outsourcers that host a firm's data typically employ security measures that are far superior to the safeguards found in the vast majority of RIA firms. They also provide disaster recovery and backup, helping ensure that your data is safe and accessible even if your office is damaged or destroyed. Just ask yourself: Is your data more secure in a technology facility or on a server sitting in a closet in your office?

## Key Takeaways

Analyze how you use and manage technology in your business and determine the impact that your technology-related decisions are having on your overall success and profitability. Armed with that insight, you can assess whether outsourcing is a more beneficial option than managing technology in-house.

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.

1. Charles Schwab 2012 RIA Benchmarking Study.
2. Charles Schwab 2012 RIA Benchmarking Study.
3. Charles Schwab 2012 RIA Benchmarking Study.
4. Charles Schwab 2012 RIA Benchmarking Study.
5. Charles Schwab 2011 RIA Benchmarking Study.
6. *Investment News*, August 2012.
7. Forrester Research, North American Technographics Benchmark Survey, 2011.

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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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