Advisor Technology:
A Human Capital Investment

by Kirk Loury

Practice in Action!
Business Coaching

Technology is to the knowledge worker what an assembly line is to an auto company or a mill is to a steel producer. As a knowledge worker, a financial and wealth management practitioner cannot productively operate without the use of technology.

A factory is not a factory without its production machinery. A manufacturer purchasing machinery to fill its factory makes a capital investment and expects to earn a return higher than the cost. Consequently, the manufacturer's management will fail if the machinery is not dutifully managed, monitored, and maintained.

Unlike a manufacturer, a practitioner's "product"—advice/counsel/wisdom—by definition is intangible in its native form. Using technology brings this product from the practitioner's intellect into analyses, processes, and output, thereby creating a tangible deliverable in the form of documents and reports. This deliverable becomes evidence to the client of the intellectual work applied to the client's circumstances, needs, anxieties, and aspirations. From this deliverable, the client ascribes value and receives benefits; a profitable relationship results.

As a "factory" of applied expertise, a financial and wealth management firm deploys technology applications across the back office (where the work gets done) and the front office (where client relationships exist), and this operational combination forms the structure that allows the firm to compete. Taking away the technology likely means the firm's demise.

Thinking of a practitioner as a factory that produces applied expertise for the client's benefit, technology's importance to this process is unquestionable. However, unlike a manufacturer that looks to its machin_ery as a capital investment, and manages and maintains it accordingly, most professional services firms relegate technology to a non-strategic "thing" and let the investment in technology sit without oversight intensity.

Given the fundamental relationship between technology and the professionals using it, a professional services firm charts a new course operationally and financially when technology in all its forms is viewed as a strategic investment, an investment in the firm's human capital.

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What you will learn:

1. Financial and wealth management practitioners are knowledge workers and technology is the core production resource.
2. While back office tools have a common element firm to firm, the use of technology in the front office, where the client experience occurs, is a function of a firm's strategy.
3. Technology is a gateway to higher practitioner efficiency and firm-level profitability.
4. Spending money on technology is an investment in human capital on par with a manufacturer investing capital in machinery or factories.
5. Any prudent investor monitors its investment portfolio and so should a professional services firm diligently monitor its technology-based, human-capital investments.

Technology: The Servant

A professional services business connects an expert with a person willing to pay for that expertise. In the main, the business is all about human relationships and not transactions, and those firms that foster valuable interactions grow faster than those that don't. Technology builds the mechanisms for these relationships in both the "back office" (i.e. where the work gets done) and the "front office" (i.e. where the relationship interactions occur).

It is not a stretch to say that a technology tool exists to address any matter of service or operation found in a professional services firm; this will be the operative assumption here.

As odd as it may seem, technology is as much philosophy and style as it is about features and functions. Technology is not a "thing" in the same sense as a file cabinet or a pencil sharpener, but it represents anything that pushes a person (and a firm) to higher productivity and effectiveness. The place where technology exists (e.g. a firm's local server, desktops, laptops, smart phone apps, or the Internet) is less relevant today than what the technology does in advancing a practitioner's expertise, productivity, and client interactions.

Too often technology sits as a budget item (i.e. in the same way as office supplies) when it is much more an environment shaped by strategy and tactics, all of which drive deep into the core of what a firm is and intends to be. In other words, for financial and wealth management practitioners, technology undergirds strategies and tactics.

While technology represents the means and methods for a professional services firm (i.e. a knowledge business) to operate, it is in no way a commodity firm to firm. A firm seeking fast growth through volume pricing applies technology quite differently than the firm that charges premium pricing with high-touch service.

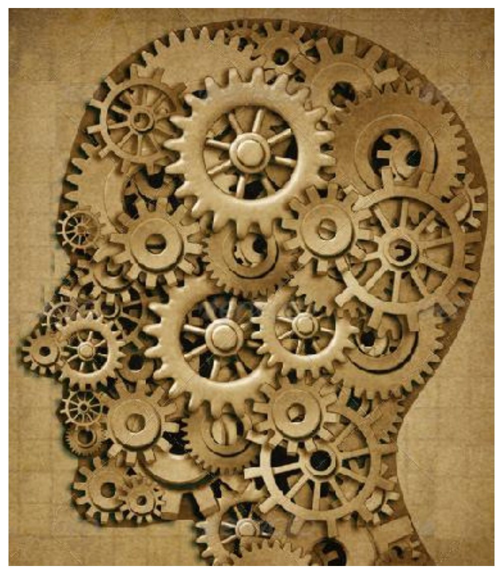
Technology: Back Office Commonality and Front Office Strategy

Specialty firms within financial and wealth management (e.g. financial advisors, attorneys, CPAs, insurance agents, etc.) utilize technology commonly in the back office insofar as the production content underlying the service is the same. In other words, attorneys utilize technology tools to facilitate legal services and investment advisors use tools for planning, investment analysis and portfolio building. The tool vendors and the level of tool-to-tool integration may be different, but the analysis and reporting support standard tasks.

Fundamentally, back office technology converts an intangible service—advice/counsel/wisdom applied to a particular problem—to tangibility. It comes forward in a deliverable communicating (in text, charts, and images) how the professional service meets a client's needs and delivers valuable benefits.

It is this solution deliverable that bridges from the back office to the front wherein the firm's strategy defines the client relationship experience. The experience itself is a combination of both technology and people. The high growth firm may deliver the solution solely in an electronic form through a customer login and interactions with a call center whereas the high-touch firm may present the solution as a document page by page and face to face.

Two guide posts exist. First, a financial and wealth management firm uses back office technology to build and deliver the service tangibly. Second, a firm's strategy dictates if technology will be used in supporting the client relationship experience.



Technology: Maximizing Human Performance

A practitioner's expertise and experience is shaped by encountering a wide variety of clients' circumstances, needs, anxieties, and aspirations. Add to this, changing regulations, competition, and economic conditions, and a practitioner's human capital value constantly evolves.

This human capital is a factory of sorts which has a certain production capacity each day. A factory is most profitable when it is working at peak capacity. When production hours are consumed or profitability suffers, three options exist (ordered progressively from easiest/lowest cost to hardest/most expensive):

1. Rework the production process and the use of tools to achieve more efficiency,
2. Acquire more efficient tools (i.e. better and/or more integrated technology), or
3. Add another “factory” (i.e. bring on another practitioner).

Declining profits, quality lapses, and less engaged clients usually indicate issues with production capacity. Should one or more of these conditions arise, it would be imprudent to immediately react and accept the overhead of a new practitioner. More appropriately, reworking processes and installing better tools offers not only a quicker impact but will not risk the firm’s culture needlessly.

At professional services firms, most often technology is relegated to an operations category and not thought of as an investment in human capital. Deploying technology at a firm should have the same ROI expectation as a manufacturer buying new equipment or building another factory.

Technology: Investing in the Factory

It would be foolish for a manufacturer to invest capital in new machinery and operate it poorly or, worse, let it sit idle. Since the capital investment has an explicit expectation to earn more in profits than the cost (the ROI), the management dutifully monitors the machinery and ensures optimal performance; their careers may depend on it.

At professional services firms, most often technology is relegated to an operations category and not thought of as an investment in human capital. Deploying technology at a firm should have the same ROI expectation as a manufacturer buying new equipment or building another factory. Such an expectation alters the firm’s focus from simply installing a technology tool to ensuring the tool works optimally in making the practitioner efficient and producing higher-quality output; doing so improves profitability.

Technology: The Check-Up Audit

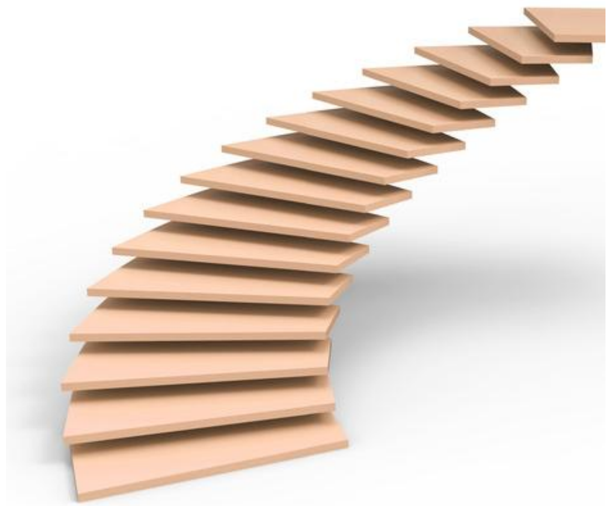
A factory owner schedules maintenance because the machinery operates more efficiently and with fewer breakdowns. Given the tight link between a practitioner’s productivity and technology, achieving a favorable ROI requires monitoring and adjustments to the tools, just as the manufacturer would do with its machinery.

Diligent monitoring, as an investor would expect, involves a clear process, defined responsibility, and frequency.

1. **Annual Strategic Review:** As noted above, technology is intertwined in any knowledge-based business. Therefore, any

discussion on strategy or tactical shifts demands a companion discussion on technology's role in execution.

2. **Technology Inventory:** An inventory includes all technologies, from the major back and front office software licenses sitting on a server or desktop, to personal technologies found on smart phones, internet-based services, and subscriptions. The inventory records licensing details and delivery platform (e.g. server, desktop, laptop, smart phone app, the Internet, etc.)



3. **Core Functions:** Every firm a set of core operational functions that define the firm's excellence; any technology used in these functions itself has a high ROI profile. By emphasizing these functions, the firm ensures that the technology used in these functions has equal visibility.

4. **Appoint a Top User:** Every installed technology initially sought to address a particular process or problem. Consequently, the employee whose work encompassed the process or problem naturally became the expert user. Think of formally appointing the expert user as the "Tool Champion" or some similar title for each technology whether it is general office applications (e.g. Microsoft Office) or business-oriented, smart phone apps or service-specific software (i.e. such as is found in the back office). The champion will serve the firm as the go-to expert user for the tool as well as the firm's primary vendor contact.

5. **Identify the Main Functions:** Within each tool, there's a set of core functions used. People in general use a tool's functions based on what was initially learned; a routine quickly sets in. The Tool Champion no doubt knows these key functions intimately, and it is important to document the functions and periodically rate the <u>current</u> operational value. The assessment serves as a map for evaluating possible replacements if the business advances faster than the current tool's capabilities permit.

6. **Prioritize the Tool's Non-Core Functions:** Most technology tools possess a much richer feature set than what is commonly used. Each Tool Champion is tasked with achieving familiarity with the tool's entire feature set and then identifying which of the unused

(or infrequently used) features have process benefits yet to be realized.

7. **Ongoing Training:** Carrying forward each tool's productive features across all users accelerates the firm's ROI. Just as a factory keeps its key machinery up to date with the latest advancements, so does each Tool Champion give the training and internal support to others in order for the tool to provide maximum benefits. And, as a side benefit, this type of responsibility provides a useful employee development experience.

8. **Set a Training Schedule:** Each technology needs to have a training schedule. The training format and method is a function of the number of users and the technology's core value. Some tools are used by one primary user (e.g. QuickBooks) and others by entire teams or groups; obviously, the highest ROI is to those tools with the broadest usage. A rotating training program, say, an hour a month allows each tool's non-routine functions to enter day-to-day operations for all users without causing an excessive burden in learning too many features at once.

    a. Some functions have many features. In these instances, a training session should provide an overview of the target function and, in the following weeks, individual promotion of designated features occurs through e-mail distributed training vignettes.

9. **Semi-Annual Due Diligence Reviews:** There is a tendency to fall into an operational rut as the day-to-day pressures make it easy to ignore the opportunity for continual efficiency improvement. Since technology advancements happen frequently, a formal, semi-annual review of each tool's latest capabilities, compared against those from competitors, allows rational decisions to be made concerning license renewal or tool replacement.

    a. A practitioner that belongs to a practice development Action Group (i.e. similar to a study group) accesses the group's collective wisdom for both processes and related technologies. And, the group may choose to conduct semi-annual due diligence reviews together, thereby sharing the analytical burden and the conclusions.

Putting It All Together

Every investment has an upfront cost in order to achieve downstream benefits. Once an investment is made, the prudent investor monitors progress and makes adjustments.

Looking at technology as an investment acknowledges the initial costs—licensing, training, and learning (i.e. initial drops in productivity)—knowing that accelerated efficiency follows. Firms that only see a cost and not benefits fall into one of two traps: 1) underinvesting in training for existing tools or 2) unwillingness to change to more effective technologies. Underinvesting always leads to suboptimal performance that itself becomes a self-fulfilling prophecy.

About Kirk Loury

A thirty-year investment advisory, financial services, and technology veteran, Kirk Loury has worked across the industry as a chief investment officer (alternative and traditional investment firms), strategic consultant, chief marketing officer (mutual funds and venture capital), and the founder of two financial technology companies. As the founder of Wealth Planning Consulting, Inc. (WPC), he has developed two major, high-value components for financial and wealth management firms.

- The Balance Sheet Methodology (BSM) is a cloud-based financial planning, investment, portfolio, rebalancing, trading/execution, and monitoring platform with unprecedented integration and economic value. These qualities are noted in BSM's "no compromises functionality"™ and "5-pillar integration"™ market standards.

- Practice in Action! is a business coaching solution designed specifically for small- to mid-sized financial and wealth management firms seeking accelerated business performance. Using a unique combination of distance learning and the on-the-ground strength of Action! Groups (a pre-assigned accountability group of ten peer professionals), topics move quickly from concept to execution to results. Practice in Action! focuses its content on business planning, time budgeting, marketing, sales, service, and execution. The program spans twelve months and delivers a strong ROI arising from our extreme emphasis on execution.

Loury earned his B.S. in marketing from the University of Colorado, Boulder and his M.B.A. from the Harvard Business School.

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