

Information Manufacturing and Distribution

**Want to run the best financial planning firm in the world?
Look outside our industry to see how other businesses work.**

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For years, I've studied the financial planning industry, trying to figure out what business I was in and which one I should be in. What's more, I've studied other industries for the same reason. Am I *that* confused? Not really. Continually looking at varied business models is a proven method for figuring out ways to be more efficient and effective in the delivery of services. Knowing what business you're in allows you to choose and use the best models. Every forward-thinking financial planner needs to apply this approach to running his or her practice.

Remember, I said *business model*. That's not a compensation plan, target market, geographic focus, or "ensemble" versus "solo" firm. It's how your business is designed using the classic components existing in every commercial enterprise.

Here are the standard components: gathering raw materials, inventorying the materials, designing and manufacturing a commodity or custom product, managing an inventory of finished goods, distributing the finished product, selling the product, and marketing existing and new products.

It's not hard to study each of these. Take raw material inventory, for instance. In 30 seconds or less, a Google search reveals a half-dozen books on "Production and Inventory Management: Principles and Techniques," "Planning and Control Systems," "Material Requirements Planning" and so forth. More interesting, the October 2004 *Harvard Business Review* has a 10-page article on "The Triple-A Supply Chain" discussing the functions of world-class supply chain systems for delivering goods and services to consumers. In that article, the author talks about *agility*, *adaptability* and

alignment, surprising terms for inventory management, but very much on point for students of business models—and for financial planners.

In light of this traditional business model, financial planners are in the information manufacturing and distribution business. Right about now, you may be thinking, “This guy is completely off-base. I’m a financial planner, for crying out loud! I do financial planning.” Yes, you do, and so do I. Even so, no matter how you feel, you and I are in the business of managing, manufacturing and distributing information. Let’s look at this more closely and see what industries other than our own have to teach us about it.

Component parts of a successful business. By examining component parts of the traditional business model and looking at best practices, we find answers about how we need to be running our business for optimum performance. Let’s look at one of these parts.

Nothing happens in business without raw materials. The Financial Planners Standards Council states the second step of the planning process is to “gather client data and determine goals and expectations.” Clearly, gathering information is collecting the raw materials you need to work with for planning. Can we learn anything from materials management experts? You bet!

In the early 1990s, as computer power increased and the cost of data transmission plummeted, companies sought greater speed and cost-effectiveness. In boom times, they concentrated on speed. As business went south, they concentrated on squeezing costs. Yet, as time wore on, companies who simply became more efficient did not gain a significant advantage over their rivals. In fact, relative performance deteriorated.

What did the experts find? A singular concentration on speed and cost resulted in minimum flexibility and loss of ability to adapt to changes. However, top inventory management requires efficient systems able to respond to changes in demand, capitalize on shifts in technology, and be responsive to customer input. As a financial planner,



when you think about gathering raw information, what kind of systems do you have in place to be efficient, flexible and able to upgrade as technology changes and client demands evolve?

Putting it together. Here's what we did. Six years ago, our firm's information gathering process was "industry standard," consisting of a prospective client meeting with a planner who took notes and made copies of documents the prospect gave us. The handwritten notes went in a file to be reviewed at some point. It was labor intensive, slow and error-prone—in short, it was a mess. Sometimes we got complete information, sometimes not. Because we missed stuff, we developed a checklist of things to cover and information to get. We still missed things. We figured we needed more "processing power."

We put another planner in the room to watch the prospect, take notes and look for the things we might miss, sort of like having a co-pilot in a plane. This worked better, but the notes weren't getting done perfectly and the amount of time two planners had to spend took away from other important tasks. An "aha!" moment happened when we substituted administrative assistants to take notes. Sitting quietly in the room with the planner and prospect, they saw everything and focused on taking detailed, accurate notes. They also focused on collecting all the information, because their responsibility was collecting data. Productivity improved because it relieved one planner from being in the room to take notes, which the planner didn't do very well anyway. An ancillary benefit was the cost of note taking went down, as the administrators' time was less costly than the planners'.

We were pleased, but we weren't quite out of the woods. The handwritten notes were converted to typed notes and circulated to the planner(s) in attendance for correction, then distributed to everyone else. This process took up to two weeks. If there was a delay, by the time the notes got to me, even if I had been in the meeting, I couldn't recount everything that was said. Staff occasionally "sat" on notes, and the information didn't make it to someone who needed to act on it. Our raw material gathering needed streamlining. Did this mean more processing power, different technology or something different? I looked outside the box to examine what other industries were doing.

I thought about the Internet and web search engines. How did they get all that information and have it so handy? They had to have some way of collecting various kinds of stuff and transforming it into manageable data. I thought about auto manufacturing, where just-in-time inventory practices are necessary for efficiency. These complex supply chain systems are driven by computers knowing production line speeds, on-site parts levels, vendor locations and inventory, and transportation and delivery timing, coordinating the parts to be on the production line at the right time, just in time.

I thought about it while driving, often when stuck in traffic. It occurred to me traffic jams were just like data (cars) running through a pipe (road), getting blocked because of the bottlenecks. This equated to bad raw data (traffic) management not adequately planning for growth. Finally it hit me while I was standing in our offices contemplating a wall of client and business files six feet high by 50 feet long, containing over 500,000 sheets of paper: Our entire raw material collection and management system was in terrible shape, and no amount of patching was going to solve the bottlenecks.

You might be thinking, “Who wants to hear about systems, bottlenecks or traffic? I’ve got plenty of space in my file drawers.” But don’t let your seemingly well-organized office sucker punch you. Just because you don’t suffer the mountains of paperwork we did doesn’t mean you shouldn’t pay attention to seminal business trends.

In September 1999, mutual fund company Undiscovered Managers released a controversial report, *The Future of the Financial Advisory Business and the Delivery of Advice to the Semi-Affluent Investor*. One key prediction was that “Margin compression will force all advisory firms to change.” In other words, it’s getting harder to stay profitable. This was supported by the 2001 FPA Compensation and Staffing Study by Moss Adams LLP, which stated median assets under management (AUM) of \$32 million, median profit margins 36.5% and average profit per client \$767. The same study in 2004 reported median AUM of \$53 million, median profit margins 8.3% and average profit per client \$371. Undiscovered Managers was right.

The point I'm making here is you better look outside our industry if you want to remain competitive in it. Viewing your business in ways you never have before is likely to mean the difference between spectacular success and miserable mediocrity or, worse yet, a slow financial death.

For us, a complete information system overhaul was the answer. We converted all paper to electronic files. We used the concept of point-of-sale computers and put wireless laptops in each conference room for every meeting. The assigned note taker types into the laptop during the meeting and electronically forwards the notes for review to everyone in the meeting within hours after it's adjourned. I see the notes, regardless of where I am in the world, just as quickly as everyone at home in the office. Action items are posted the same day. Notes are never lost because they go into our client-relation management system immediately. When prospective clients hand us their papers, we scan them and hand them right back.

You might imagine I'm some kind of frustrated industrial engineer who enjoys playing with gizmos and gadgets, so that's what I've put in my offices. Not true. I'm leery of computers, and the only gadget I use personally is a PDA. The reality is the technology revolutionizing inventory control has also streamlined our firm, making it more efficient and better able to serve our clients.

The hardware and software cost was around \$20,000, with an additional \$20,000 in labor to convert the files. The annual labor and storage savings is about \$25,000, comprised of \$20,000 in labor and \$5,000 in space and off-site storage costs, which increases each year. Several people can now share client information at the same time—no more running around the office yelling: “Who took the Smith file?!” When I'm out of the office, I can see all the meeting notes, data and analyses for every client and prospect on my computer 24/7. It's mahvelous, simply mahvelous!

Keep looking outside. Whether you are a solo practitioner or part of a 50-person firm, you need to think outside the box. You need to think hard and long about other successful businesses, and how they gather raw materials, manufacture their product or service, and deliver the goods to their customers. When you figure something out to try, it doesn't have to be a \$50,000 investment. It could be another employee using an existing laptop in a new way. Think about it—you have nothing to lose and everything to gain. Actually, that's not quite accurate. If you don't start innovating, you may have something to lose: your business.

Earlier I mentioned margin squeeze and how it is affecting most financial planning firms. Actually, margin compression affects every industry. Even so, there are ways to keep margins up. For example, our firm's net profit margin has increased since 2000, and it didn't happen by chance. In future columns, I'll discuss dealing with margin compression, working hard or working smart, the "Bermuda Triangle" of professional service firms, profitability drivers in professional firms and a host of other business-related topics to help you develop the best financial planning business you can.

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