THE CASE FOR CHANGE

Toward a New Frontier in Team Productivity

The Case for Change

At a time when client service preferences are evolving and their financials are challenged, firms need to do more to improve productivity and to support their client-facing teams.

EXECUTIVE SUMMARY

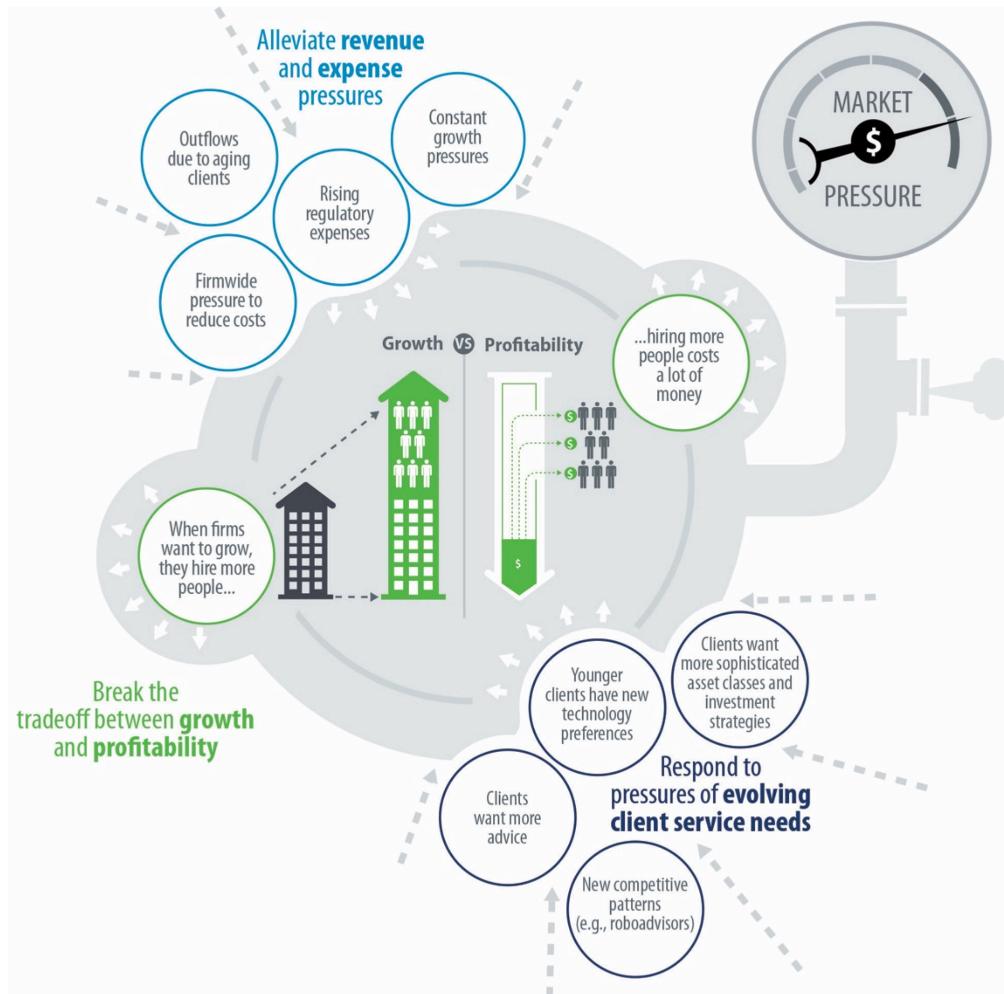
Are you ready? Wealth managers must respond to emerging trends and familiar challenges.

Wealth managers are under pressure. For starters, firms must keep pace with evolving client expectations, including demands for advice and for access to more sophisticated asset classes and investment strategies. Service models are also flexing to accommodate the technology and delivery preferences of younger consumers, and to respond to the emergence of roboadvisors. On balance, these changes are probably good news. For clients, service model shifts are likely to bring better service outcomes. For wealth managers, they open the door to deeper, stickier client relationships. Implementation, however, places new demands on firms, their teams, and their profits.

The timing of service model changes is inopportune, as firms are under significant financial pressure. Revenues are adversely impacted by a challenging investment environment and by asset outflows from aging clients. Demands from senior management for growth are ever-present, yet firms are loath to spend; hiring new advisors and sales officers to spur growth is unpalatable. In the near-term, firms need to keep a close eye on spending to compensate for reduced banking spreads, escalating regulatory costs, and economic uncertainty. Operationally, firms must contend with longstanding tradeoffs between growth and profitability. In simple terms, growth is expensive: firms can have high growth rates or high margins but rarely both. Achieving sustainable topline growth seems to require continuous investment in people and other resources.

In many respects, today's manager's mandate almost seems unfair. It's to do more—improve the service and grow—while not spending a lot of money. And in some cases, it's to do more with less.

WEALTH MANAGERS UNDER PRESSURE



We believe that firms should undertake a wholesale review of the processes and infrastructure that support their client-facing advisors.

Ultimately, firms need to design flexible business models capable of responding to the ever-changing realities of the market.

THE CASE FOR CHANGE

Under pressure, the 'release valve' is to improve productivity—and especially advisor productivity.

At a time when client service preferences are evolving, when firms' financials are under pressure, and in the midst of demographic shifts, the client advisor is becoming even more critical to the client service experience and to financial success.

Our view, therefore, is that firms need to do more—significantly more—to support their advisors and to improve the productivity of their client-facing teams. Attracting top talent is paramount, yet providing that talent with adequate support and infrastructure often falls by the wayside. Saddling talented, high-cost employees with administrative work and old technology exacerbates longstanding tensions between growth (which is expensive) and profitability. Our recommendation is that firms undertake a wholesale review of the processes and infrastructure that support their client-facing advisors. Ultimately, firms need to design flexible business models capable of responding to the ever-changing realities of the market.

The case for change is compelling:

Client advisors are often burdened with low-value tasks and constrained by inefficiency.

Profitable firms are those that deploy their key people most effectively. That's both truism and empirical fact: productivity and profitability are highly correlated. Nonetheless, it is an open secret that advisors are encumbered with administrative work, manual processes, and inadequate technology. Given the margin implications, the case for investing in productivity is strong; buffeted by a variety of new and familiar pressures, the need for firms to act is stronger still.

Advisors will be tasked with delivering the new and improved client service experience.

As the liaison between client and institution, between important life goals and the means to achieve them, the client advisor has always been integral to the service experience. As service models more commonly feature advice at the core, the advisor's role becomes even more critical. Navigating a successful shift will require giving advisors additional capacity for high-value client servicing activities.

By empowering their advisors to drive growth, firms can alleviate revenue and expense pressures.

In a world of limited budgets and hiring constraints, adding more people to fuel growth isn't an option. Longer-term, age and retirement will drain the talent pool. Even today, searches for sales officers and other key positions can drag on for months at a time, if not longer. Increased efficiency, therefore, is the best of a limited set of options; firms need to find ways to give their existing advisors more time for sales.

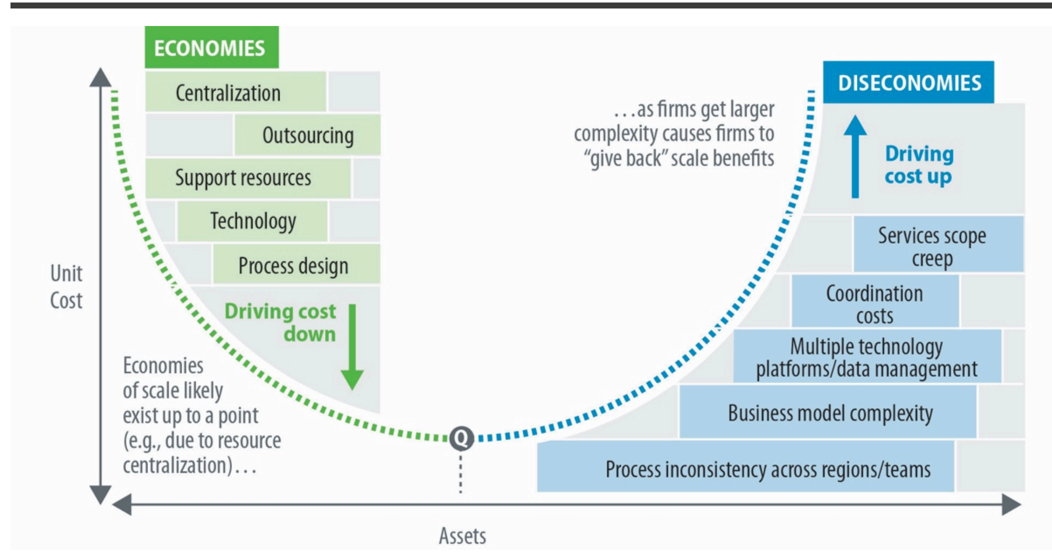
Productivity improvements can weaken the tension between growth and profitability.

Growth in wealth management is expensive; revenues and expenses are very strongly correlated. There's evidence, however, of at least modest economies of scale, especially as firms grow from small to mid-size. There's also evidence of diseconomies of scale, especially among large and super-sized wealth managers.

Our view is that productivity (or lack thereof) underlies evidence of economies and diseconomies of scale. As firms climb the scale curve, centralized and specialized labor, as well as investments in technology, reduce per unit costs (e.g., managing an extra dollar of AUM gets cheaper). In other words, growth becomes a little less expensive. Past a certain size threshold, however, escalating business model complexity causes firms to "give back" scale benefits. Complexity arises from myriad causes, ranging from business acquisitions to incompatible technology platforms, to rising coordination costs.

One implication is that firms need to heavily leverage resources that drive productivity. Support resources such as administrative support and outsourcing partners have a quantifiable, positive impact on productivity. A second is that firms need to assiduously root out productivity-destroying complexity by streamlining sales and service processes, striving for process consistency across teams, and improving technology connectivity.

SIGNS OF ECONOMIES AND DISECONOMIES



FIVE THINGS FIRMS NEED TO DO TODAY

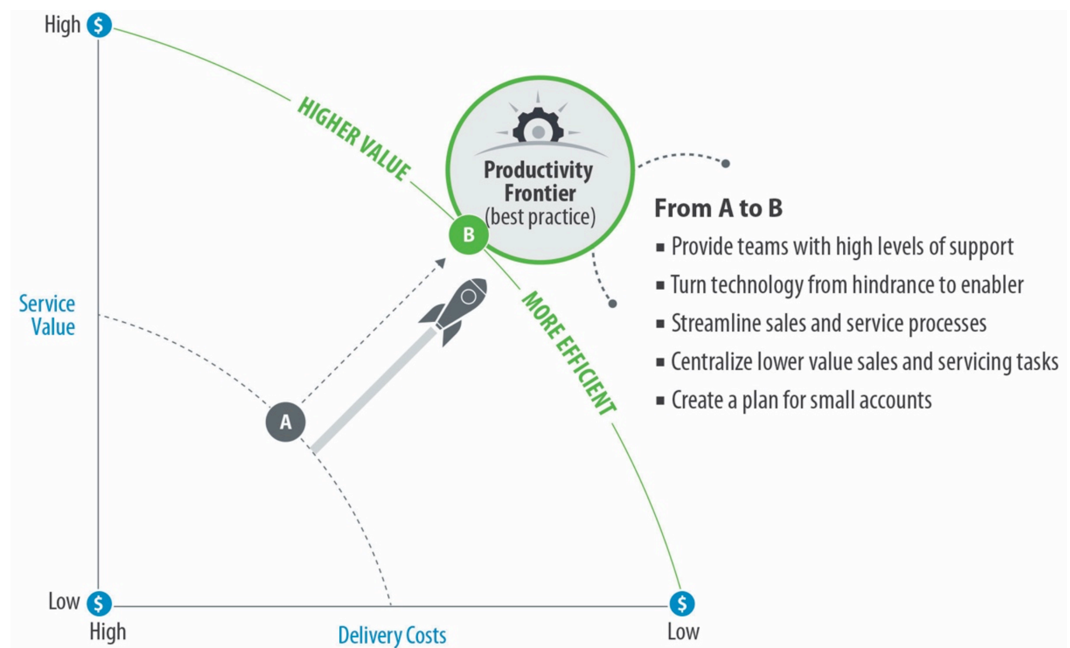
For many firms, significant productivity gains are well within reach.

Even adjusting for business model differences, some wealth managers are much more efficient than their peers. Within size-based cohorts, for example, we observe a lot of variance in the productivity of client advisors, as well as in all employees. We observe similar variability in the performance of client-facing teams.

Productivity differences have a host of tactical explanations: the ease with which teams coordinate; the extent to which key sales and service processes are standardized and streamlined; the number of manual processes and amount of administrative work; the way in which firms support advisors with teams and support resources. Most of these activities are enhanced by effective technology deployment, which is likely one of the biggest differentiators in the performance of client-facing teams.

The benefits that accrue to productive firms aren't just financial, they also impact the client service experience. For example, by enabling proactive servicing and by minimizing errors, firms can increase service value. Our research reimagines these dual benefits as dimensions of a Productivity Frontier, and proposes five steps for attaining a new, higher frontier.

THE PRODUCTIVITY FRONTIER



OUR RESEARCH REIMAGINES THE FINANCIAL AND SERVICING BENEFITS AS DIMENSIONS OF A PRODUCTIVITY FRONTIER, and proposes five steps for attaining a higher frontier.

1. Provide client-facing teams with higher levels of support and better infrastructure.

Our analysis of common service team models finds examples of exemplary performance in each. Our research found no evidence that a particular service team structure was demonstrably better at improving productivity than another. Looking at performance variations *within* categories of service team models, however, hints at the characteristics of profitable firms and productive teams:

- Firms with proportionately fewer client-facing employees and proportionately more support staff tend to have better financial outcomes. These firms are offloading administrative and lower-value tasks to less expensive employees—and incentivizing client-facing staff to use freed time for servicing and sales.
- Productive teams serve larger client relationships and account sizes. Large account sizes, high share of wallet and profitability go together—building teams that can deliver deep and broad relationships drives profitability.
- Larger teams, broader service offers, and team-based sales go together; firms desiring deeper, advice-based relationships with clients need to develop competencies in team sales and cultivate good sales talent.

2. Turn technology from hindrance to enabler.

As it relates to technology, the industry divides into two camps: invest and invest not. The latter category includes those that have old technology, lots of workaround solutions, and manual processes. It is likely that the "invest nots" are essentially pushing the costs of old technology to their service teams or elsewhere in their business models. Frustrations relating to the lack of interconnectivity between platforms are particularly palpable. In the "invest" camp, firms with newer technology are doing the exact opposite: displacing labor costs by automating formerly manual processes.

3. Streamline sales and service processes.

By developing more consistent sales and service approaches, firms are improving both the client service experience as well as staff productivity. Through process redesign and by leveraging technology, these initiatives share the goals of consistent execution across teams, promotion of 'best practice' sales and servicing strategies, error and risk reduction, and elimination of redundancies.

4. Centralize lower value sales and servicing tasks.

As firms get larger, their employees generally get more productive, and task centralization and role specialization are key reasons why. If the quintessential small firm advisor does a bit of everything, as firms grow, administrative tasks, small accounts, labor-intensive processes, and specialty expertise are commonly centralized in support resources. These support resources—from administrative assistants, to client service officers, to outsourcing partners—are almost always lower-cost and can pay big productivity dividends.

5. Create a plan for managing small accounts and single-service relationships.

Rivaling old technology, small accounts and single-service relationships are arguably one of the biggest drains on front office productivity. Conversely, larger accounts and larger relationships generally have salutary effects. For most firms, a "small account" solution begins by differentiating the always-small, productivity-sapping relationships from those with future growth potential. From a sales perspective, a way to grow these relationships via more disciplined pricing and cross-sales is a must. Further, from a servicing perspective, firms must strive to serve small accounts with lower-cost labor or, better, to develop standardized and automated service approaches.

Staying still is a decision—and it's a poor one.

Many firms will choose to stay the course in 2016: to maintain tight control of expenses and to hope that an improving economy, financial markets or business liquidity will fuel revenue growth.

Even setting aside recent declines in the equity markets, the status quo has significant limitations. At the very least, firms need to find a way to offset the rising costs of regulatory, technology, and service demands. Cutting other costs is an unlikely solve, as most are already working off of lean cost structures. Alleviating expense pressures, therefore, will require growth, but growth net of market effects has been difficult to come by. Unfortunately, the traditional model of growth—hire more advisors—is both costly and likely to become more so.