

*Outsourcing is a growing trend in the financial services industry. For many financial services firms, outsourcing provides a critical competitive advantage. The “perfect storm” of globalization, technological evolution, standardized business processes and efficient markets establishes ideal circumstances for outsourcing.*

*If you are considering outsourcing, it is essential to consider its potential impact on your clients, employees, technology investments, and bottom line. **Should you outsource or should you fund operations internally?** This guide assists you, the investment professional, in exploring the critical questions.*

## **HOW DO I DECIDE IF OUTSOURCING IS RIGHT FOR MY FIRM?**

### **How profitable am I versus my competition?**

The goal of any business is to increase client satisfaction and profitability. Outsourcing can be the ideal way to off-load redundant tasks and free up time for the tasks necessary for increased earnings. Focusing on enhanced client servicing, and alpha-producing, revenue-generating activities can give your business the competitive edge.

### **What are my strategic advantages vs. my competitors? What tasks do I perform that give me competitive advantage?**

Here's a simple exercise that will help identify the tasks that support your strategic advantage: For one week, take an inventory of everything your firm does that distinguishes it from the competition and makes it unique. Create a list, then review it with your staff and/or a client you trust. Is the list complete? *These tasks are probably important to manage in-house. Focus daily activities here.*

The following week, keep a list of all the things you do that do *not* make you unique or give you competitive advantage. Review this list with your staff and/or a client your trust. *Are these things you want/need to keep doing? Will outsourcing reduce or eliminate these activities which do not correlate to strategic advantage?*

### **What are typical business tasks that do not provide competitive advantage?**

Examples of standard tasks are data gathering, account reconciliation, and internal and external reporting and billing. *Are the execution of these tasks truly helping your firm gain competitive advantage?* These are excellent activities to outsource if you can find the right partner.

### **What tasks does my business perform that are non-revenue generating?**

What other activities does your firm perform that are non-revenue producing? *Define them, and explore if they can be outsourced.*

### **What tasks do my competitors outsource and why?**

Custodians, portfolio management system vendors, consultants and product wholesalers know the industry trends. They have a unique perspective on what makes the firms they serve successful. Ask: *What tasks are firms outsourcing? With whom? Have experiences been positive?*

### **How would my clients benefit if I outsource certain tasks?**

Outsourcing with the right partner frees valuable time- - time better spent on servicing existing clients, improving portfolio performance, and marketing to new clients.

*In what ways would your clients benefit from outsourcing? Would this justify the time and resources necessary to research outsourcing?*

### **How would my employees benefit if I outsource certain tasks?**

Reducing or eliminating redundant tasks allows employees more time to create value for themselves and the firm. When employees extend their capabilities, the result is greater profitability, improved client relations and increased company valuation. Redundant tasks tend to sap creative energy, take valuable time, and require an overuse of management.

*Would your business benefit from additional focus on client related tasks and activities?*

### **What would be the impact on my business if I outsource certain tasks?**

Start by choosing the tasks that are the easiest to outsource—ones that will offer the highest return on investment. Continue to re-evaluate your firm's readiness to outsource other tasks.

*When outsourcing, you should be able to quantify how your revenue and profitability per employee will be positively impacted. The right partner can help you do this.*

### **How does outsourcing fit into my business plan/strategy?**

Outsourcing may or may not fit your current business plan or strategy. Begin by reviewing your business plan. Are costs under control? Do you have the right resources focused on growth, portfolio construction and client service? If you had \$1 to invest in the business, where would you put it to work today?

*Many firms choose to outsource for tactical reasons. We suggest you choose a partner for **strategic** reasons. Staying committed to outsourcing will pay tremendous dividends over an extended period of time.*

### **How much money will I save if I outsource?**

Many professionals believe outsourcing will save money. This is generally *NOT* the case.

The reason firms outsource is to free professional, highly skilled staff of redundant tasks and administrative burden. This ultimately drives revenue, growth, and performance. *Outsourcing best serves firms that are ultimately dedicated to growth, profitability, and excellence.*

### **How will my growth be impacted if I outsource?**

Many firms choose outsourcing when they want to focus on the growth of their business. Chances of growth are greater when you choose the right partner.

### **If I'm launching a new RIA firm, should I outsource or fund internally?**

By outsourcing immediately, new firms can have significant competitive advantage. If you are launching a new practice, many start up costs, such as time to learn systems, professional services, adding new staff, and documenting processes can be virtually eliminated by choosing outsourcing.

*If you choose to outsource from day one, it is critical to find a partner who is familiar with the challenges inherent in starting your own firm .*

### **What risks do I face if I outsource?**

The greatest risks are: choosing the wrong partner, having unrealistic expectations and not agreeing on business impact of outsourcing.

The discovery and sales process should clarify what kind of relationship to expect, what goals can be reached, and how business will be impacted. Your risk lessens if you choose partners who are knowledgeable, accessible, service oriented and have a demonstrated track record of success.

## ***HOW DO I CHOOSE AN OUTSOURCE PROVIDER?***

### **What skills and expertise should my outsource partner possess?**

*Expertise in your portfolio accounting system is essential to success. There is no substitute for experience in this area.*

Choose a partner that has worked with several variations of the portfolio management system you use. Potential partners should know how to scale operations, solve data management challenges, and add value to the quality of technology you use. Over time, a vendor may be able to assist with tasks such as reporting, trading, and rebalancing. Partners should be able to share their vision for their own growing practice.

Outsource partners should possess proficiency and knowledge, a solid business track record, and the foresight and ability to solve workflow/technology problems as your business evolves. They should be service-oriented and maintain reliable, excellent references. *Look for references which commend the firm's professionals as well as the firm's performance.*

### **What differentiates one outsource company from another?**

Several things differentiate one outsource company from another.

#### *Offerings*

What portfolio management systems and custodians does the company support? What additional services do they offer: reporting, billing, performance verification, manual data entry?

#### *Service*

Most outsource companies provide their clients with a service level agreement. This agreement should detail what you can expect and precisely when tasks will be completed. It is important to find a partner that can meet or exceed your firm's minimum requirements.

#### *Pricing*

Pricing schedules may be based on any combination of a per account fee, assets under management or flat fee.

#### *Staff*

Meet, interview, and get to know the staff -- and be certain your firms are compatible. Think of your outsource partner as an extension of your firm. Would you want your clients to meet the partners you hire?

### **What makes a good outsource service/partnership?**

Any firm desiring to be your outsource partner must, first and foremost, understand your business goals. Look for providers who can clearly measure their potential impact on your objectives. They must also respect your business philosophy, expertise, and style of client service.

*What value added capabilities can the partner offer? Have the firms you are considering provided you with details such as service level agreements and escalation procedures? Can they help you calculate the ROI?*

### **What outsource service companies serve my market?**

Your existing network is often the best place to gather experiences, advice, and opinion. Talk to firms like yours, custodians, brokers, software vendors, and market data vendors. Consult with your current account representatives and solutions providers and explore suggested websites.

The time you spend on research is well worth the payoff.

### **WHAT CAN I EXPECT FROM AN OUTSOURCE SERVICE PROVIDER?**

#### **What service levels can I expect from my outsource partner?**

Each company should provide a service level agreement. Ask for it, read it carefully, and make certain it is clear and unambiguous.

At a minimum, outsource firms should offer several options for data management frequency. Data retrieval and reconciliation can take place daily, weekly or monthly depending on your requirements.

#### **How responsive will my outsource partner be?**

Define what you need and expect from your outsource partner prior to entering contract. Setting expectations prior to implementation will ensure that both parties are prepared for success.

#### **What kind of relationship will I have with my outsource partner?**

Some firms simply want their partner to perform data management. Consequently there is very little interaction with the outsource company. Other firms expect daily status reports in the form of a phone call or electronic update. *Determine the needs of your firm and choose a partner that can deliver what you expect.*

**How will I measure the business impact of my outsource partners?**

Determine expectations before you sign a contract with outsource providers. Agree on the projected impact and measure it on an ongoing basis.

**What options do I have if my outsource partner fails?**

Generally, your outsource partner should have records of all data management information for as long as they have been employed by your firm. This information should be simple to transfer to another provider. The real issue, however, is the quality of this available data. Chances are you are dissatisfied because the outsource partner failed to meet your data quality or data timeliness standards.

Regardless, document why the current partner failed to meet your expectations. You can then challenge your new data partner to manage the process to your satisfaction.

**BaySys Technology** provides outsourced data management for investment professionals. Like you, we seek to find and partner with the right clients. We have run data management companies and built financial technology firms from the ground up. Our experience and expertise enables us to help your firm achieve operational efficiencies so you can grow your business and provide superior service to your clients.

**Let our experience guide you in making the right decision for your firm.**

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